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U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE  
FOR AMERICAN INDIANS  
TRIBAL AND OTHER SPECIAL TRUST FUNDS,  
AND INDIVIDUAL INDIAN MONIES TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT

FISCAL YEAR 1999  
ANNUAL REPORT

April 2000

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**COPY**

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IN REPLY REFER TO:

# United States Department of the Interior

## OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS

Office of Trust Funds Management

505 Marquette N.W. Suite 1000

Albuquerque, New Mexico 87102

### LETTER FROM THE DIRECTOR

#### HISTORY OF OTFM

The Office of Trust Funds Management ("OTFM") was first established within the Bureau of Indian Affairs ("BIA") in 1989, pursuant to Secretarial Order Number 3187 dated October 26, 1989. This order combined the trust accounting and investment functions within the BIA into one office, OTFM.

In October 1994, the U.S. Congress passed the American Indian Trust Fund Management Reform Act (Public Law 103-412). This statute established the Office of the Special Trustee for American Indians ("OST") within the Department of the Interior. The Special Trustee is appointed by the President and is responsible for the oversight, reform and coordination of all departmental activities involved in the management of Indian trust assets.

In February 1996, OTFM was transferred intact out of the BIA and placed within the OST. Financial Trust Services employees in the 12 BIA regions and over 80 field locations were also transferred from BIA and made part of OTFM and OST. Today, the Director of OTFM reports to the Office of the Special Trustee.

OTFM is responsible for the accurate receipt, investment and disbursement of Indian trust funds both to tribal account holders and individual beneficiaries. Funds are derived from the sale or rental of Indian-owned natural resources such as timber or grazing land, and royalties from oil and natural gas exploration and production. Funds also are derived from awards or settlements of tribal claims for lost land or other damages. Each year, more than \$800 million passes through the tribal trust funds system and over \$300 million through the Individual Indian Monies ("IIM") trust fund accounts. Investment earnings make up a significant portion of the total receipts. As you can see in the enclosed OTFM fiscal year 1999 financial statements, Indian trust accounts amount to approximately \$3 billion. Of this amount, about \$450 million is owned by approximately 286,000 individuals, with the remainder being owned by over 315 Tribes.

#### POINTS OF SPECIAL INTEREST FOR FISCAL YEAR 1999

Over the last several years, the OTFM has been working diligently to reform the systems, policies, practices, and procedures by which Indian Tribes and individual Indians trust funds are managed. In July 1998, the Department of the Interior ("DOI") issued the first High Level Implementation Plan ("HLIP") for Indian Trust Management Improvement. That plan represents the first step in implementing the strategic plan required by Section 303 of the American Indian Trust Fund Management Reform Act of 1994. In the revised and updated HLIP dated February 29, 2000, the OST/OTFM has primary responsibility for the following 5 Sub projects.

**OST Trust Administrative Records Clean Up Project** - In this subproject OST will standardize and verify the Individual Indian Monies ("IIM") subsidiary system data to trust administrative records, and correct and establish an inventory of hard copy records used daily for each trust fund account. An inventory has been taken of the IIM jacket folders to identify trust funds management documents (including those present in the folders and those missing from the folders), identify accounts whose owners must be located, and initiate the process for imaging documents used in the management of the trust funds. As of September 30, 1999, the initial clean up of all available IIM jacket folders (i.e., certain tribes prevented the OTFM from obtaining the jacket folders from their respective agency office) was complete. Ongoing efforts continue under this subproject to resolve exceptions identified during the initial phase of cleanup.

**Trust Funds Accounting System ("TFAS")** - In this subproject the OTFM acquired, installed and site tested, a proven commercial off-the-shelf trust accounting system to replace the present Bureau of Indian Affairs ("BIA") IIM accounting module. As of September 30, 1999, all Tribal accounts and a portion of the IIM accounts were converted to TFAS. The remaining IIM accounts for 4 Regional offices are planned for conversion on March 31, 2000.

**Records Management** - This subproject involves OST, BIA, Minerals Management Service, Bureau of Land Management, Office of Hearing and Appeals, and other relevant DOI offices. The scope includes Indian trust records management, storage, access, control and disposition, and contemplates electronic record keeping, including imaging technology. As of September 30, 1999, OTFM continues to work with the Office of Trust Records ("OTR") in the centralization of OST financial trust records. This initial milestone was completed effective October 8, 1999. With the centralization of the accounting processing and the conversion to TFAS, we expect to have less financial documentation in the future at the field locations. To the extent that such documentation exists at the field locations, we will work with the OTR to centralize these records as well.

**Training** - This subproject will plan and deliver both trust management and employee skills training relevant to the delivery of Interior's trust fiduciary responsibilities to American Indians. Training will be provided across the Interior trust workforce and include Tribes and participating contractors. As of September 30, 1999, TFAS training was provided to OST/OTFM staff, and available to BIA and Tribal employees at locations for which accounts have been converted. As additional Regions are converted, TFAS training will be required for all OST/OTFM staff and available for respective BIA and Tribal employees.

**Internal Control** - This subproject will systematically address documented internal control deficiencies in Indian trust management, item by item, that have been identified through internal and external audit, Congressional oversight and outside reviews. Corrective actions will be validated and/or designed to assure resolution of all internal control weaknesses. As of September 30, 1999, OTFM continues to work diligently in addressing and resolving internal control deficiencies with BIA and DOI officials. The OTFM actively tracks and initiates corrective actions or recommends corrective actions on material weaknesses, reportable conditions and advisory comments as reported in the annual financial statement audits.

As you can see from the above items, fiscal year 1999 sets the stage for a major transformation in Indian trust management in the years to come. We at OTFM welcome these changes with open arms and look forward to the challenges that lie ahead. We realize that with change comes frustration for our employees and for our account holders. We only ask for their patience and encourage all those interested to log onto our website at [www.ost.doi.gov](http://www.ost.doi.gov) to read a complete version of the HLIP and to see recent accomplishment with respect to these subprojects. We look forward to the coming year and are optimistic with regards to continued improvements in the management of Indian Trust Funds. OTFM is committed to continuing to improve the services OTFM provides to the Indian community.



Douglas A. Lords  
Acting Director, Office of Trust Funds Management

# INDIAN TRUST FUNDS

## HISTORICAL PERSPECTIVE

The legislation, which authorizes the Secretary of the Interior ("the Secretary") to manage the Tribal and Other Special Trust Funds, and Individual Indian Monies Trust Funds ("Trust Funds"), recognizes the unique trust relationship that exists between the Indian Tribes, individual Indians and the U.S. Federal Government. Agreements between the U.S. Federal Government and the various Indian Tribes, many in the form of treaties, recognize the sovereignty of the Tribes. During the course of the Nation's history and the U.S. Federal Government's evolving policies toward Indian Tribes and individual Indians, the trust relationship has retained characteristics based upon Tribal sovereignty.

### Mission Statement of OST/OTFM

To assure the highest level of accuracy, responsiveness and service in the receipt, investment and disbursement of all judgment awards, special acts and income from trust resources belonging to Native Americans in accordance with the American Indian Trust Fund Management Reform Act of 1994.

## DESIGNATED TRUSTEE

The Secretary has been designated by the U.S. Congress as the primary U.S. Federal Government trustee on behalf of the account holders of the Trust Funds. Prior to February 9, 1996, the Secretary delegated authority for management of the Trust Funds, including accounting and financial reporting, to the Assistant Secretary - Indian Affairs, who carried out the management of the Trust Funds through the Bureau of Indian Affairs ("BIA"). The American Indian Trust Fund Management Reform Act of 1994 (P.L. 103-412) ("the Reform Act") provided for the establishment of the Office of the Special Trustee for American Indians ("OST"). On February 9, 1996, Secretarial Order 3197 ("the Order") redelegated this authority to OST and transferred the Office of Trust Funds Management ("OTFM"), and financial trust services performed at BIA Area (now Regional), Agency Offices and Field Offices, from the BIA to the OST.

Trust assets are managed under the delegated authority of the OST and the BIA. The OST maintains staff at approximately sixty BIA Regional, Agency and Field Offices located throughout the United States. OST personnel, located at various offices, perform functions related to trust funds activities.

## ORGANIZATION OF THE OTFM

The OTFM, established October 26, 1989, and located in Albuquerque, New Mexico, has management responsibility over all Indian Trust Funds. The OTFM carries out its responsibilities through the following divisions.

The Division of Trust Funds Quality Assurance plans, develops, and implements the OST-wide operational review, evaluation, policies and regulatory management programs. The division advises OST/OTFM management on the efficiency, economy, legality and effectiveness of operations and compliance with all mandated laws and regulations at the program, field and Tribal level where appropriate. It identifies, develops, and coordinates the preparation of trust fund management

policies and operational procedures. The division is also responsible for development, evaluation, coordination and monitoring of policies and procedures covering all aspects of documentation/record keeping requirements for trust funds. It provides, maintains and monitors on-site storage of central office records in accordance with Federal record keeping rules and regulations. It monitors and reviews OTFM program office's compliance with internal records management policies, procedures and retention and disposition schedules.

The Division of Trust Funds Systems provides daily technical support for trust funds financial accounting systems' end users, including OST, BIA, and Tribal employees. The division coordinates OST's ADP and related information management activities and provides support in such areas as acquisition assistance and management, technology assessment, and technical support for office automation hardware, software, and training.

The Division of Trust Funds Accounting processes and controls accounting activities, which records funds collected, disbursed, invested, and held in trust. It plans, develops, and recommends policies and procedures governing accounting of Trust Funds, as well as monitoring the collection, disbursement and recording of funds. It is also responsible for investment accounting activities and for providing custodial services for investment activities.

The Division of Trust Funds Services plans, develops, operates, and controls the buying, selling, and trading of investments in accordance with applicable laws, regulations, and policies. It provides technical advice and assistance to OST/OTFM staff and Indian Tribes in developing financial plans and investment strategies for Trust Funds.

The Division of Trust Funds Reporting/Reconciliation is responsible for reconciling subsidiary accounts and monitoring Trust Fund activities. The division prepares certain financial and accounting reports for use within the U.S. Federal Government and for inclusion in various OTFM-wide reports.

The Division of Field Operations coordinates the administrative and technical execution of financial trust programs; provides or obtains adequate technical service to guide and support field operations; and evaluates the performance of field level organizations. The division, through its staff, is also responsible for receiving, recording, and disbursing trust funds belonging to account holders, and preparing, maintaining, and reconciling records.

#### **TRUST FUND ACCOUNTS**

The balances that have accumulated in the Tribal Trust Funds have generally resulted from land use agreements, royalties on natural resource depletion, Tribal enterprises related to trust resources, judgment awards, settlement of Indian claims and investment income.

The IIM Fund is primarily a deposit fund for Individuals, who have a beneficial interest in the Trust Funds. IIM account holders realize receipts primarily from royalties on natural resource depletion, land use agreements, enterprises having a direct relationship to Trust Fund resources and investment income.

#### **FIDUCIARY RESPONSIBILITY**

The DOI has responsibility for the assets held in trust on behalf of American Indian Tribes, individual Indians, and Other Special Trust Funds. In carrying out the management and oversight of the Indian Trust Funds, the Secretary has a

fiduciary responsibility to ensure that trust accounts are properly maintained and invested in accordance with applicable law, and that accurate and complete reports are provided to the account holders.

#### ANNUAL FINANCIAL AUDITS

The accompanying financial statements represent all of the Indian Trust Funds managed by the OTFM and do not include any direct appropriations which fund OST/OTFM operational services. The audits of the Trust Funds financial statements meet the audit requirement of the American Indian Trust Fund Management Reform Act.

#### GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA)

The Reform Act directed the OST to consult with Indian Tribes and Indian organizations to develop a comprehensive strategic plan to reform Trust Funds management. As of April 1997, in response to the Reform Act, the Special trustee prepared and submitted to Congress and the Secretary a strategic plan. The Secretary and the Special Trustee agreed that selected improvements and clean up efforts should proceed as soon as possible. In July 1998 the Secretary published the first High Level Implementation Plan (HLIP) for the Trust Management Improvement Project. February 29, 2000 the Secretary published a revised and updated HLIP that identifies and outlines specific subprojects for the improvement and operation of Trust Funds management for American Indians.



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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON  
FINANCIAL STATEMENTS**

**SEPTEMBER 30, 1999 AND 1998**

# GRIFFIN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

DAN D. GRIFFIN

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON FINANCIAL STATEMENTS

To the U.S. Department of the Interior  
Office of the Special Trustee for American Indians:

We have audited the accompanying Combined Statements of Assets and Trust Fund Balances and the related Combined Statements of Changes in Trust Fund Balances for the Tribal and Other Special Trust Funds managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians (the "OST") Office of Trust Funds Management (the "OTFM") as of and for the years ended September 30, 1999 and 1998. These financial statements are the responsibility of management of the OTFM. Our responsibility is to express an opinion on these financial statements based on our audits. As discussed in Note 2, the OTFM used the cash basis of accounting to prepare these financial statements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Except as discussed in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed further in the Notes to the Financial Statements, (1) cash balances reflected in the accompanying combined financial statements are materially greater than balances reported by the U.S. Treasury, (2) inadequacies in various Department of the Interior ("DOI") Indian Trust Fund accounting systems and subsystems, controls and records caused the systems to be unreliable, (3) various Tribal organizations and classes of individual Indians for whom the OTFM holds financial assets in trust do not agree with certain OTFM accountings and balances recorded by the OTFM; and certain of these parties have filed, or are expected to file, claims against the OTFM. This may result in a potential liability of the U.S. Federal Government that is not reasonably estimable. Because of these matters, it was not practicable to extend our auditing procedures to enable us to express an opinion regarding the basis on which cash and Trust Fund balances in the Combined Statements of Assets and Trust Fund Balances and individual categories within the Combined Statements of Changes in Trust Fund Balances are stated.

In our opinion, except for the effect on the financial statements of adjustments that might have been determined had we been able to perform adequate audit procedures to verify the financial elements described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position and change in Trust Fund balances of the Tribal and Other Special Trust Funds managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians Office of Trust Funds Management as of

September 30, 1999 and 1998, and for the years then ended in conformity with the comprehensive basis of accounting described in paragraph one above.

We have also issued separate reports dated April 14, 2000, on the OTFM's internal control structure and on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Market Value columns, Supplementary Combining Schedule of Assets and Trust Fund Balances, and the related Supplementary Combining Schedule of Changes in Trust Fund Balances are presented for purposes of additional analysis and are not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements, and in our opinion, except for the items set forth above, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Griffin & Associates, P.C., CPAs*

GRIFFIN & ASSOCIATES, P.C.  
Certified Public Accountants

Boulder, Colorado  
April 14, 2000

**U.S. DEPARTMENT OF THE INTERIOR  
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**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 1999 AND 1998**

U.S. DEPARTMENT OF THE INTERIOR  
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TRIBAL AND OTHER SPECIAL TRUST FUNDS  
MANAGED BY THE  
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COMBINED STATEMENTS OF ASSETS AND TRUST FUND BALANCES - CASH BASIS  
SEPTEMBER 30,  
(dollars in thousands)

	<u>1999</u>		<u>1998</u>	
	<u>Cash Basis</u>	<u>Market Values - Information Only</u>	<u>Cash Basis</u>	<u>Market Values - Information Only</u>
<b>ASSETS</b>				
Cash (Note 4)	\$ 1,972	\$ 1,972	\$ 15,539	\$ 16,132
Investments (Notes 1C, 4 and 5):				
Overnight investments	290,492	290,492	273,414	273,414
U.S. Treasury and Agency securities	2,169,389	2,149,507	2,066,635	2,274,892
Certificates of deposit	-	-	608	608
Equity securities - TVA preferred stock	4,899	4,863	4,899	5,131
Mortgage backed securities	129,001	127,373	98,360	103,688
Total investments	<u>2,593,781</u>	<u>2,572,235</u>	<u>2,443,916</u>	<u>2,657,733</u>
Total assets	<u>\$ 2,595,753</u>	<u>\$ 2,574,207</u>	<u>\$ 2,459,455</u>	<u>\$ 2,673,865</u>
<b>TRUST FUND BALANCES (Notes 7 and 10):</b>				
Held for Indian Tribes and Other				
Special Trust Funds	\$ 2,345,668		\$ 2,207,584	
Held for Indian Tribes and Other				
Special Trust Funds - pending action				
to be taken by Tribes	135,468		139,850	
Held for Department of Interior and				
considered to be U.S. Government funds	<u>114,617</u>		<u>112,021</u>	
Total trust fund balances	<u>\$ 2,595,753</u>	<u>\$ 2,574,207</u>	<u>\$ 2,459,455</u>	<u>\$ 2,673,865</u>

The accompanying notes are an integral part of these statements.

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COMBINED STATEMENTS OF CHANGES IN TRUST FUND BALANCES - CASH BASIS  
FOR THE YEARS ENDED SEPTEMBER 30,  
(dollars in thousands)

	<u>1999</u>	<u>1998</u>
<b>RECEIPTS:</b>		
Interest and dividends earned		
on invested funds (Note 2B)	\$ 155,242	\$ 132,514
Net gain on disposition of investments	5,520	14,965
Other receipts (Note 2C and 9)	<u>299,213</u>	<u>374,246</u>
	459,975	521,725
<b>DISBURSEMENTS:</b>		
Payments to and on behalf of		
Indian Tribes and Other		
Special Trust Funds and Withdrawal of		
of trust funds by Tribes (Note 2D)	<u>323,677</u>	<u>465,398</u>
Receipts in excess of disbursements	136,298	56,327
TRUST FUND BALANCES, beginning of year	2,459,455	2,403,721
Beginning Trust Fund balances		
adjustment for suspense accounts (Note 10)	<u>-</u>	<u>(593)</u>
TRUST FUND BALANCES, end of		
year (Note 7)	<u>\$ 2,595,753</u>	<u>\$ 2,459,455</u>

Market Value - Information Only

TRUST FUND BALANCES, beginning of year		
at Market Value	\$ 2,673,865	\$ 2,553,600
Receipts in excess of disbursements	136,298	56,327
Unrealized Gain (loss) (Note 5)	<u>(235,956)</u>	<u>63,938</u>
TRUST FUND BALANCES, end of year		
at Market Value (Note 7)	<u>\$ 2,574,207</u>	<u>\$ 2,673,865</u>

The accompanying notes are an integral part of these statements.

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NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 1999 AND 1998

**NOTE 1 -- BACKGROUND AND DESCRIPTION OF THE ORGANIZATION**

**A. Overview of Trust Funds, the Office of the Special Trustee for American Indians ("OST") and the Office of Trust Funds Management ("OTFM")**

**Formation of the Trust Funds** - The legislation, which authorizes the Secretary of the Interior ("the Secretary") to manage the Tribal and Other Special Trust Funds ("Trust Funds"), recognizes the unique trust relationship that exists between the Indian Tribes and the U.S. Federal Government. Agreements between the U.S. Federal Government and the various Indian Tribes, many of these in the form of treaties, recognize the sovereignty of Tribes. During the course of the Nation's history and the U.S. Federal Government's varying policies toward Indian Tribes, the trust relationship has retained characteristics based upon Tribal sovereignty.

The balances that have accumulated in the Trust Funds have generally resulted from payments of claims by the U.S. Federal Government, land use agreements, oil, gas and mineral extraction and investment income.

The Secretary has been designated by the U.S. Congress as the primary U.S. Federal Government trustee on behalf of the account holders of the Trust Funds. Through February 8, 1996, the Secretary, in turn, delegated authority for management of the Trust Funds, including accounting and financial reporting, to the Assistant Secretary - Indian Affairs, who carried out the management of the Trust Funds through the Bureau of Indian Affairs ("BIA"). The American Indian Trust Fund Management Reform Act of 1994 ("P.L. 103-412") provided for the establishment of the OST. On February 9, 1996, Secretarial Order 3197 ("the Order") redelegated this authority to OST and transferred the OTFM, and financial trust services performed at BIA Area (now Regional) and Agency Offices, from the BIA to the OST.

**Organization of the OST** - Trust assets are managed under the delegated authority of the OST and the BIA.

- ♦ **Agency and Field Offices** - The OST and BIA maintain Agency and Field Offices located throughout the United States. Generally, Agency and Field Offices are physically located near the Tribes served. The Agency and Field Offices may play a significant role in Tribal affairs through assistance in financial planning, financial operations and policy and program development. OST personnel located at most of the Agency Offices perform various functions related to trust funds activities.
- ♦ **Regional Offices** - Each of the Agency and Field Offices is organized under one of the Regional Offices. The Regional Offices provide administrative and operational support for their respective Agency and Field Offices.
- ♦ **Office of Trust Funds Management** - The OTFM, established October 26, 1989, and located in Albuquerque, New Mexico, has management responsibility over all Indian Trust Funds.

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**B. Description of the Trust Funds**

The Trust Funds are managed by the OTFM and BIA on behalf of Tribes and Other Special Trust Funds. Certain of the Tribal and Special Trust Funds are subject to legal, regulatory, budgetary, court ordered or other restrictions. A brief description of each Trust Fund follows:

- ♦ Tribal Fund - Approximately 1,400 and 1,700 separate accounts comprise the Tribal Fund as of September 30, 1999 and 1998 respectively. Approximately 44% and 49% of the Tribal Fund assets are held in seven and six accounts as of September 30, 1999 and 1998, respectively.

Tribes realize receipts from a variety of sources including land use agreements, royalties on natural resource depletion, Tribal enterprises related to trust resources, judgment awards, settlement of Indian claims and investment income.

- ♦ Other Special Trust Funds - Other Special Trust Funds represent other trust assets currently managed by the OTFM. Authorization for management of these assets is based on U.S. Congressional Acts establishing such funds. Each of these funds either reverts back to the U.S. Federal Government upon certain conditions, or the corpus of the fund is non-expendable. A brief description of each Fund follows:

- ◊ Alaska Native Escrow Fund - The Alaska Native Escrow Fund was established by U.S. Congressional act for Alaska Native Corporations and Villages for land of which boundaries were disputed. Proceeds received or deposited into this fund are derived primarily from contracts, leases, licenses, permits, rights-of-way, etc. The proceeds, plus accrued interest, are paid out to the appropriate corporation or individual to which the land is conveyed by the U.S. Federal Government.

- ◊ Cochiti Wetfields Fund - The Pueblo de Cochiti ("Pueblo") and the U.S. Army Corps of Engineers entered into a settlement agreement for water seepage problems at the Cochiti Dam on Tribal lands. The agreement established a fund for the sole and specific purpose of operating, maintaining, repairing and replacing this drainage system. Although the fund is invested and managed by the OTFM, the fund remains the property of the United States, and will revert to the Department of the U.S. Treasury ("Treasury") if Cochiti Dam becomes non-operational and the Pueblo agrees that the drainage system is no longer needed.

- ◊ Papago Cooperative Fund - The Tohono O'Odham Nation, with respect to the San Xavier Reservation and the Schuk Toak District of the Sells Papago Reservation, was awarded a settlement in the form of water rights for water that was taken from reservation land. The water rights give the Tribe flexibility in the management of water resources and encourage allocation of those resources to their highest and best uses. The awarded



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funds are to be used for Tribal government, health, education, social services, capital improvements and economic development programs.

- ◊ Contributed Funds - The OTFM maintains eight (8) contributed funds that were established by donations. The individual funds each have a specific use or purpose in some form to better the lives of American Indians.
- ◊ George C. Edgeter Fund - This fund is available, according to the terms of the bequest, for expenditure as determined by the Assistant Secretary - Indian Affairs for the relief of indigent American Indians.
- ◆ The Tribal and Other Special Trust Funds contain the following three categories of trust funds for Federal budget purposes:
  - ◊ Funds held on behalf of Indian Tribes. Considered non-Federal monies.
  - ◊ Funds held on behalf of Indian Tribes but pending some official action by Tribes. Considered Federal monies.
  - ◊ Funds which either revert back to the U.S. Federal Government upon certain conditions, or the corpus of the fund is non-expendable. Considered Federal monies.

The balances held for the above three categories are reflected as separate components of the trust fund balances in the financial statements.

- ◆ Budget clearing and suspense accounts - Currently there are five U.S. Treasury ("the Treasury") suspense and budget clearing accounts contained within the Tribal and Other Special Trust Funds. Currently, all five accounts have "stale" balances with little or no activity reported during the year (See Note 10).

C. Investment of Trust Funds

Authorizing legislation and a substantial body of case law specify how the Indian Trust Funds should be managed and which financial instruments constitute appropriate investments for Indian Trust Funds. Trust funds are directly invested in U.S. Federal Government securities, including U.S. Treasury and U.S. Federal Government Agency issues, as well as certain other securities that are guaranteed by the U.S. Federal Government. As of September 30, 1998, a portion of Indian Trust Funds was also invested with financial institutions at which such deposits were covered by Federal depository insurance. There are no funds invested in certificates of deposit as of September 30, 1999.

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NOTES TO THE FINANCIAL STATEMENTS  
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NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The OTFM uses the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, for the Tribal and Other Special Trust Funds. The cash basis of accounting differs from generally accepted accounting principles in that receivables and payables are not recorded and premiums and discounts are not amortized or accreted. Investments are stated at historical cost. Interest receipts reported in the Statements of Changes in Trust Fund Balances reflect the interest received during the fiscal year. The financial statements include a market value column for informational purposes only.

The Indian Trust Funds account for assets held for others in a trust capacity and do not involve measurement of operations. Receipts are recorded when received, because it is not practicable to measure the majority of such items prior to receipt. Accordingly, receivables are not reflected in the accompanying financial statements. The accompanying financial statements include only the balances held in trust by the OST and OTFM for others and do not include (1) the account balances of the OST and OTFM (general appropriations, personnel and administrative costs, etc.), or (2) the values of Indian lands, buildings or other non-monetary assets regardless of the source of funding (Tribal monies, Congressional appropriations, Indian Trust Fund resources, etc.).

B. Interest Receipts

Tribal Trust and Other Special Trust Funds are invested separately by account with interest recorded based on actual income received from each investment. Interest is received in two ways: (1) directly from investment securities in which the Trust Funds are placed, such as certificates of deposit at financial institutions or U.S. Treasury, Agency or U.S. Federal Government sponsored securities, or (2) from a U.S. Treasury overnight investment ("overnighter"), which earns a rate comparable to "Fed Funds" rates. The interest on the overnighiter investments is calculated daily, compounded, accumulated separately for participating accounts and posted to the separate accounts monthly.

C. Other Receipts

Approximately 5% and 27% of other receipts are a result of claims and judgment awards to Tribes and Other Special Trust Funds by the U.S., State and local governments, and private entities and individuals for the years ended September 30, 1999 and 1998 respectively.

Other trust receipts are generated from a variety of assets that are held in trust by the U.S. Federal Government and managed by the BIA and other Federal Agencies on behalf of Tribes. Such amounts include receipts from various leasing activities, mineral royalties, and sales of extracted minerals, timber and forest products, fees and fines, and the granting of easements.

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**D. Disbursements**

Payments disbursed from Tribal and from Other Special Trust Funds accounts consist of investment income as well as funds from various income producing activities such as leasing, royalty payments, minerals extraction and timber and forest product sales. Under certain conditions, Tribes disburse per capita payments to their enrolled members from the Trust Funds. Payments are made to Tribes from the proceeds of various judgment awards. Upon submission and approval of the required documentation, Tribes may submit requests for payments in accordance with terms and conditions of the awards.

P.L. 103-412 specifically allows for the voluntary withdrawal from the Trust Funds program. An Indian Tribe may submit a plan to withdraw some or all funds held in trust for the Tribe. The plan must be approved by the Secretary, DOI, and the appropriate Tribal governmental body, and must provide an indication as to the capability and experience of the individuals or institutions managing the Trust Funds.

**E. Significant Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Management considers the market value of investments one such significant estimate.

**NOTE 3 -- ACCOUNTING SYSTEMS AND MATERIAL INTERNAL CONTROL WEAKNESSES**

The accounting systems, subsystems and internal control procedures used by the OST and OTFM have historically suffered from a variety of system and procedural internal control weaknesses. Some of these weaknesses along with their improvements are as follows:

- A. There remain some gaps of consistency in the application of accounting and related procedures being utilized OTFM-wide, which cause accounting errors in the Indian Trust Funds. Standardized documented policies and procedures are in various stages of development to address all significant accounting processes.
- B. There is inadequate segregation for many key duties, particularly in the accounting processes performed at the Regional and Agency Offices. Efforts have been implemented to centralize the accounting input functions to the central office, which is expected to address the segregation of conflicting duties issue.
- C. Records management is inconsistent and inadequate to ensure the proper filing and safekeeping of Trust Fund records to support trust financial activity, however, a mandatory documents policy has been adopted and verification of these mandatory documents will be checked in the centralized accounting pre-posting review procedures.

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- D. Prior to October 1998, internal interim financial statements were not being prepared in accordance with the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The OTFM did compile a Statement of Assets and Trust Fund Balances and Statement of Changes in Trust Fund Balances on a quarterly basis for the fiscal year ended September 30, 1999.
- E. There is an unreconciled difference of approximately \$35,000,000 between the total cash balances reflected by the OTFM for Tribal and Other Special Trust Funds, and Individual Indian Monies Trust Funds and the balances reported by Treasury as of September 30, 1999 and 1998. Treasury reports reflect balances less than OTFM balances. Issue papers and proposed action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.
- F. Many individual Tribal accounts need to be reconciled and/or resolved through negotiation and settlement before reliance can be placed on the balances reflected in the Trust Fund accounts. Upon resolution, it may be possible to reconcile OTFM cash balances to Treasury. Issue papers and proposed action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.
- G. Uncertainties regarding the division of responsibilities between BIA and OTFM staff resulted in inconsistent implementation of responsibilities.

In an effort to address these pervasive issues, the OTFM was placed under the direction of the OST, effective February 9, 1996 with Secretarial Order 3197. The Secretary's decision on system improvements and data clean up were organized into separate, but complementing Sub projects, which comprise the High level Implementation Plan ("HLIP"). The HLIP provides information on and describes each of the 13 Sub projects, responsible Bureaus and Offices, supporting tasks, critical milestones, work plans, resource estimates, and accountable officials. These 13 Sub projects have been subsequently modified to 11 and are in various stages of completion and implementation.

NOTE 4 -- CASH AND OVERNIGHT INVESTMENTS

Tribal and Other Special Trust Funds are disbursed by the OTFM through disbursing functions provided by the Department of the Treasury. Vouchers and Schedules of Payments are submitted to the Treasury and processed through an electronic processing and certification system. Upon verification that Treasury has processed and issued the resulting disbursements, corresponding accounting entries are recorded into the respective trust fund accounts. Starting with fiscal year ending September 30, 1991, Treasury checks are only negotiable for one year from the date of issuance and the OTFM receives credit, and credits back to the appropriate account holders, amounts on checks that are not negotiated. Cash balances consist of cash deposits to Treasury between the cut-off time for overnight investment, 1:00 p.m. (MST/MDT), and the end of the business day. Amounts on hand at the

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Regional and Agency Offices waiting for deposit to Treasury are not included in the financial statements.

Overnight investments consist of available cash invested with Treasury.

As of September 30, 1998 certain special deposit accounts were transferred from the IIM system to the Tribal system. This reclassification of approximately \$16,000,000 resulted in a cash overdraft in the Individual Indian Monies Trust Funds financial statements and a positive cash balance in the Tribal and Other Special Trust Funds financial statements.

NOTE 5 -- INVESTMENTS

Investments are recorded at unamortized historical cost.

The Trust Fund assets have a concentration of credit risk in U.S. Federal Government securities as mandated by 25 USC 162.

Investments have not been adjusted to reflect changes in market value, because it is the OTFM's intent and ability to generally hold these investments until maturity, thereby reducing the risk of loss as a result of early disposition of such investments.

Certificates of Deposit

All Certificates of Deposit as of September 30, 1998 were covered by depository insurance. The Tribal and Other Special Trust Funds held no certificates of deposit as of September 30, 1999.

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Investments (at market value) with scheduled maturities are as follows:

	Tribal Trust	Other Special Trust Funds	Combined Total
September 30, 1999:			
U.S. Treasury and Agency securities:			
Overnight investments	\$ 290,427	\$ 65	\$ 290,492
Less than 1 Year	154,075	5,066	159,141
1 - 5 Years	573,215	29,357	602,572
5 - 10 Years	1,311,826	17,207	1,329,033
Greater than 10 Years	58,761	-	58,761
	2,388,304	51,695	2,439,999
Equities with no scheduled maturities	4,863	-	4,863
Mortgage backed securities with varying maturities	127,373	-	127,373
	\$ 2,520,540	\$ 51,695	\$ 2,572,235
September 30, 1998:			
U.S. Treasury and Agency securities:			
Overnight investments	\$ 270,575	\$ 2,839	\$ 273,414
Less than 1 Year	233,387	8,588	241,975
1 - 5 Years	469,817	24,531	494,348
5 - 10 Years	844,534	14,765	859,299
Greater than 10 Years	676,195	3,075	679,270
	2,494,508	53,798	2,548,306
Certificates of Deposit:			
Less than 1 Year	608	-	608
Equities with no scheduled maturities	5,131	-	5,131
Mortgage backed securities with varying maturities	103,688	-	103,688
	\$ 2,603,935	\$ 53,798	\$ 2,657,733

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NOTE 6 -- COMMITMENTS AND CONTINGENCIES

The Secretary has been designated by the U.S. Congress as the primary fiduciary with responsibility for monetary resources held in trust, collecting all monies due from outside individuals/organizations for the use of Indian lands and the extraction of natural resources from Indian lands, and disbursing such monies collected to the appropriate beneficiaries.

Tribal organizations have filed various claims against the United States for failure to fulfill its fiduciary responsibilities and for related charges. Neither the OTFM nor the Office of the Solicitor for the U.S. Department of the Interior can presently determine the outcome of these actions nor the total amount, responsibility and funding source of the potential liability.

Any actual liabilities resulting from adverse outcomes of the contingencies described above are generally expected to be satisfied with U.S. Federal Government funds, and not assets of the Trust Fund. No amounts have been accrued in the accompanying Trust Fund financial statements for potential claims receivable from the U.S. Federal Government.

NOTE 7 -- TRUST FUND BALANCES

Trust Fund balances are the aggregation of monetary assets held in trust and represent the amounts owed to beneficiaries as of September 30, 1999 and 1998, for which the OTFM has a fiduciary responsibility.

Included in the Tribal Trust Funds are balances not presently identified to specific Tribes because judgment awards were granted to several Indian Tribes in a particular geographic area for settlement of claims related to certain lands.

Tribal organizations have filed various claims against the United States for failure to fulfill its fiduciary responsibilities and for related charges. Neither the OTFM nor the Office of the Solicitor for the U.S. Department of the Interior can presently determine the outcome of these actions nor the total amount, responsibility and funding source of the potential liability.

Any actual liabilities resulting from adverse outcomes of the contingencies described above are generally expected to be satisfied with U.S. Federal Government funds, and not assets of the Trust Fund. No amounts have been accrued in the accompanying Trust Fund financial statements for potential claims receivable from the U.S. Federal Government.

NOTE 8 -- RELATED PARTY TRANSACTIONS WITH OTHER U.S. FEDERAL GOVERNMENT ORGANIZATIONS

Debt Arrangements

The BIA is a party to various note payable agreements. These agreements are primarily between the Indian Tribes and the U.S. Department of Agriculture Farmers Home Administration ("FmHA") or the U.S. Department of Commerce Economic

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Development Administration ("EDA"). The proceeds of the FmHA loans are generally used by Indian Tribes to repurchase fractional ownership interests in allotted lands from individual Indians.

The income received from the acquired ownership interests are deposited into either "Special Deposit" accounts in the IIM Trust Funds or a designated Tribal account in the Tribal and Other Special Trust Funds, and principal and interest payments are made from these accounts. EDA loans are utilized for construction of Tribal facilities (governmental/administrative buildings, and facilities for enterprise activities such as manufacturing, hotel/motel facilities, etc.). Individual Tribes are liable for repayment of these loans. Proceeds of Labor Trust Fund accounts may be utilized for repayment of these loans.

Minerals Management Services

The OTFM receives royalty payments from the U.S. Department of the Interior Minerals Management Service ("MMS") on behalf of Indian Tribes and individual Indians holding mineral rights. MMS generally transfers the royalty payments to the OTFM upon receipt. At the time the royalty payments are received, MMS provides the OTFM with a breakdown of 100% Tribally owned lease royalties, thus permitting the OTFM to allocate the receipts directly into Tribal accounts. For Tribally and individually co-owned leases, the royalty payments are forwarded by MMS and subsequently distributed through the Royalty Distribution Reporting System ("RDRS"). MMS and the Bureau of Land Management both perform verification and other monitoring procedures of mineral assets.

Oil and gas companies sometimes make overpayments to MMS. These are first paid to the OTFM on behalf of Indian Tribes and individuals, and then disbursed by the OTFM to the beneficiaries. The overpayments generally result from payments being made based on estimated mineral production, in order to comply with the Federal Oil and Gas Royalty Management Act of 1982 that requires timely distribution of royalties. Typically, the oil and gas companies recover such overpayments by adjusting future payments. The amount of such overpayments if any as of September 30, 1999 and 1998 are not readily determinable and has not been quantified in these financial statements.

Other

As discussed in Note 4, the Treasury holds cash and overnight investments and disburses for the OTFM. The DOI Office of the Solicitor serves as legal counsel for the OST and OTFM.

NOTE 9 -- TRANSFERS

The OTFM receives monies into IIM special deposit accounts for both Tribal and IIM beneficiaries. These accounts are to be used as suspense accounts to which funds should be temporarily posted when the allocation is not immediately clear. Funds should be subsequently transferred from the IIM system to the appropriate Tribal account when the proper allocations are determined by BIA. These transfers



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amounted to approximately \$45,000,000 and \$49,000,000 during the fiscal years ended September 30, 1999 and 1998 respectively. The other receipts category of the Statement of Changes in Trust Fund Balances includes these net transfers. The amount of monies not yet transferred has not been quantified in these Tribal and Other Special Trust Funds financial statements.

NOTE 10 -- RESTATEMENT OF BEGINNING FUND BALANCE

During the fiscal year ended September 30, 1999, six suspense and clearing accounts with an accumulated net negative balance totaling \$593,000 were added to the audit contract of the OTFM. To make the 1999 and 1998 fund balances comparable, the net negative amount was included in the September 30, 1998 fund balances (see Note 1).

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**SUPPLEMENTARY COMBINING SCHEDULES**

**SEPTEMBER 30, 1999 AND 1998**

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SUPPLEMENTARY COMBINING  
SCHEDULE OF ASSETS AND TRUST FUND BALANCES - CASH BASIS  
SEPTEMBER 30, 1999  
(dollars in thousands)

	Tribal Trust	Other Special Trust Funds	Combined Total
<b>ASSETS</b>			
Cash (Note 4)	\$ 2,006	\$ (34)	\$ 1,972
Investments (Notes 1C,4 and 5):			
Overnight investments	290,427	65	290,492
U.S. Treasury and Agency securities	2,118,085	51,304	2,169,389
Equity securities - TVA preferred stock	4,899	-	4,899
Mortgage backed securities	129,001	-	129,001
Total investments	2,542,412	51,369	2,593,781
Total assets	\$ 2,544,418	\$ 51,335	\$ 2,595,753
<b>TRUST FUND BALANCES (Notes 7 and 10)</b>			
Held for Indian Tribes and Other Special Trust Funds	\$ 2,345,668	\$ -	\$ 2,345,668
Held for Indian Tribes and Other Special Trust Funds - pending action to be taken by Tribes	135,468	-	135,468
Held for Department of Interior and considered to be U.S. Government funds	63,282	51,335	114,617
Total trust fund balances	\$ 2,544,418	\$ 51,335	\$ 2,595,753

Market Value Information Only

<b>ASSETS</b>			
Cash (Note 4)	\$ 2,006	\$ (34)	\$ 1,972
Investments (Notes 1C,4 and 5):			
Overnight investments	290,427	65	290,492
U.S. Treasury and Agency securities	2,097,877	51,630	2,149,507
Equity securities - TVA preferred stock	4,863	-	4,863
Mortgage backed securities	127,373	-	127,373
Total investments	2,520,540	51,695	2,572,235
Total assets	\$ 2,522,546	\$ 51,661	\$ 2,574,207
Total trust fund balances	\$ 2,522,546	\$ 51,661	\$ 2,574,207

The accompanying notes are an integral part of these schedules.

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SUPPLEMENTARY COMBINING  
SCHEDULE OF CHANGES IN TRUST FUND BALANCES - CASH BASIS  
FOR THE YEAR ENDED SEPTEMBER 30, 1999  
(dollars in thousands)

	Tribal Trust	Other Special Trust Funds	Combined Total
<b>RECEIPTS:</b>			
Interest and dividends earned on invested funds (Note 2B)	\$ 152,272	\$ 2,970	\$ 155,242
Net gain(loss) on disposition of investments	5,398	122	5,520
Other receipts (Notes 2C and 9)	<u>299,213</u>	<u>-</u>	<u>299,213</u>
	456,883	3,092	459,975
<b>DISBURSEMENTS:</b>			
Payments to and on behalf of Indian Tribes and Other Special Trust Funds and Withdrawal of trust funds by Tribes (Note 2D)	<u>319,924</u>	<u>3,753</u>	<u>323,677</u>
Receipts in excess of disbursements	136,959	(661)	136,298
TRUST FUND BALANCES, beginning of year	<u>2,407,459</u>	<u>51,996</u>	<u>2,459,455</u>
TRUST FUND BALANCES, end of year (Notes 7 and 10)	<u>\$ 2,544,418</u>	<u>\$ 51,335</u>	<u>\$ 2,595,753</u>

Market Value Information Only

TRUST FUND BALANCES, beginning of year at Market Value	\$ 2,620,102	\$ 53,763	\$ 2,673,865
Receipts in excess of disbursements	136,959	(661)	136,298
Unrealized gain (loss) (Note 5)	<u>(234,515)</u>	<u>(1,441)</u>	<u>(235,956)</u>
TRUST FUND BALANCES, end of year at Market Value (Notes 7 and 10)	<u>\$ 2,522,546</u>	<u>\$ 51,661</u>	<u>\$ 2,574,207</u>

The accompanying notes are an integral part of these schedules.

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON  
FINANCIAL STATEMENTS**

**SEPTEMBER 30, 1999 AND 1998**

# GRIFFIN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

DAN D. GRIFFIN

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON FINANCIAL STATEMENTS

To the U.S. Department of the Interior  
Office of the Special Trustee for American Indians:

We have audited the accompanying Statements of Assets and Trust Fund Balances and the related Statements of Changes in Trust Fund Balances for the Individual Indian Monies Trust Funds managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians (the "OST") Office of Trust Funds Management (the "OTFM") as of and for the years ended September 30, 1999 and 1998. These financial statements are the responsibility of management of the OTFM. Our responsibility is to express an opinion on these financial statements based on our audits. As discussed in Note 2, the OTFM used the cash basis of accounting with certain modifications to prepare these financial statements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Except as discussed in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed further in the Notes to the Financial Statements, (1) cash balances reflected in the accompanying financial statements are materially greater than balances reported by the U.S. Treasury, (2) inadequacies in various Department of the Interior ("DOI") Indian Trust Fund historical accounting systems and subsystems, controls and records caused the systems to be unreliable, (3) various Tribal organizations and classes of individual Indians for whom the OTFM holds financial assets in trust do not agree with certain OTFM accountings and balances recorded by the OTFM; and certain of these parties have filed, or are expected to file, claims against the OTFM. This may result in a potential liability of the U.S. Federal Government that is not reasonably estimable. Because of these matters, it was not practicable to extend our auditing procedures to enable us to express an opinion regarding the basis on which cash and Trust Fund balances in the Statements of Assets and Trust Fund Balances and individual categories within the Statements of Changes in Trust Fund Balances are stated.

In our opinion, except for the effect on the financial statements of adjustments that might have been determined had we been able to perform adequate audit procedures to verify the financial elements described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position and change in Trust Fund balances of the Individual Indian Monies Trust Funds managed by the U.S. Department of the Interior

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Office of the Special Trustee for American Indians Office of Trust Funds Management  
as of September 30, 1999 and 1998, and for the years then ended in conformity with  
the comprehensive basis of accounting described in paragraph one above.

We have also issued separate reports dated April 14, 2000, on the OTFM's internal  
control structure and on its compliance with laws and regulations.

*Griffin & Associates, P.C., CPAs*

GRIFFIN & ASSOCIATES, P.C.  
Certified Public Accountants

Boulder, Colorado  
April 14, 2000

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STATEMENTS OF ASSETS AND TRUST FUND BALANCES - MODIFIED CASH BASIS  
SEPTEMBER 30,  
(dollars in thousands)

ASSETS	<u>1999</u>	<u>1998</u>
Cash on hand	\$ 615	\$ -
Investments (Note 4 and 5):		
Overnight investments	9,015	20,793
U.S. Treasury and Agency securities	338,755	354,518
Equity securities - TVA preferred stock	5,000	5,000
Mortgage backed securities	<u>90,627</u>	<u>108,782</u>
Total investments	444,012	489,093
Accrued interest receivable	<u>5,268</u>	<u>5,218</u>
 Total assets	 <u>\$ 449,280</u>	 <u>\$ 494,311</u>
 TRUST FUND BALANCES, held for Individual		
Indians (Note 7):	\$ 449,280	\$ 479,188
Cash overdraft with U.S. Treasury (Note 4):	<u>-</u>	<u>15,123</u>
 Total trust fund balances and cash overdraft	 <u>\$ 449,280</u>	 <u>\$ 494,311</u>

The accompanying notes are an integral part of these statements.

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STATEMENTS OF CHANGES IN TRUST FUND BALANCES - MODIFIED CASH BASIS  
FOR THE YEARS ENDED SEPTEMBER 30,  
(dollars in thousands)

	<u>1999</u>	<u>1998</u>
<b>RECEIPTS:</b>		
Interest and dividends earned		
on invested funds (Note 2B)	\$ 47,453	\$ 29,016
Net gain on disposition of investments	1,922	1,905
Other receipts (Note 2C)	<u>257,354</u>	<u>282,679</u>
	306,729	313,600
<b>DISBURSEMENTS:</b>		
Payments to and on behalf of		
account holders	<u>336,637</u>	<u>354,119</u>
Disbursements in excess of receipts	(29,908)	(40,519)
TRUST FUND BALANCES, beginning of year	<u>479,188</u>	<u>519,707</u>
TRUST FUND BALANCES, end of		
year (Note 7)	<u>\$ 449,280</u>	<u>\$ 479,188</u>

The accompanying notes are an integral part of these statements.

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NOTE 1 -- BACKGROUND AND DESCRIPTION OF THE ORGANIZATION

A. Overview of Trust Funds, the Office of the Special Trustee for American Indians ("OST") and the Office of Trust Funds Management ("OTFM")

Formation of the Trust Funds - The legislation, which authorizes the Secretary of the Interior ("the Secretary") to manage the Individual Indian Monies ("IIM") Trust Funds ("Trust Funds"), recognizes the unique trust relationship that exists between the individual Indians, Indian Tribes and the U.S. Federal Government. Agreements between the U.S. Federal Government and the various Indian Tribes, many of these in the form of treaties, recognize the sovereignty of Tribes. During the course of the Nation's history and the U.S. Federal Government's varying policies toward Indians and Indian Tribes, the trust relationship has retained characteristics based upon Tribal sovereignty.

The balances that have accumulated in the Trust Funds have generally resulted from payments of claims by the U.S. Federal Government, land use agreements, oil, gas and mineral extraction and investment income.

The Secretary has been designated by the U.S. Congress as the primary U.S. Federal Government trustee on behalf of the account holders of the Trust Funds. Through February 8, 1996, the Secretary, in turn, delegated authority for management of the Trust Funds, including accounting and financial reporting, to the Assistant Secretary - Indian Affairs, who carried out the management of the Trust Funds through the Bureau of Indian Affairs ("BIA"). The American Indian Trust Fund Management Reform Act of 1994 ("P.L. 103-412") provided for the establishment of the OST. On February 9, 1996, Secretarial Order 3197 ("the Order") redelegated this authority to OST and transferred the OTFM, and financial trust services performed at BIA Area (now Regional) and Agency Offices, from the BIA to the OST.

Organization of the OST - Trust assets are managed under the delegated authority of the OST and the BIA.

- ♦ Agency and Field Office - The OST and BIA maintain Agency and Field Offices located throughout the United States. Generally, Agency and Field Offices are physically located near the Tribes served. The Agency and Field Offices may play a significant role in Tribal affairs through assistance in financial planning, financial operations and policy and program development. OST personnel located at most of the Agency offices perform various functions related to trust funds activities.
- ♦ Regional Office - Each of the Agency and Field Offices is organized under one of the Regional Offices. The Regional Offices provide administrative and operational support for their respective Agency and Field Offices.
- ♦ Office of Trust Funds Management - The OTFM, established October 26, 1989, and located in Albuquerque, New Mexico, has management responsibility over all Indian Trust Funds.

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B. Description of the Trust Funds

The Trust Funds are managed by the OTFM and BIA on behalf of IIM account holders. Certain of the IIM funds described below are subject to legal, regulatory, budgetary, court ordered or other restrictions.

The IIM Fund is primarily a deposit fund for individuals, who may have a fiduciary interest in the Trust Funds. IIM account holders realize receipts primarily from royalties on natural resource depletion, land use agreements, enterprises having a direct relationship to Trust Fund resources and investment income. In addition, the IIM Fund contains special deposit accounts for certain Tribal entities. Approximately 279,000 and 286,000 accounts are held for participants and Tribal enterprises in the IIM Fund as of September 30, 1999 and 1998 respectively. Approximately 48% and 50% of the trust fund balances within the IIM system are held at two Regional Offices as of September 30, 1999 and 1998 respectively.

C. Investment of Trust Funds

Authorizing legislation and a substantial body of case law specify how the Indian Trust Funds should be managed and which financial instruments constitute appropriate investments for Indian Trust Funds. Trust funds are directly invested in U.S. Federal Government securities, including U.S. Treasury and U.S. Federal Government Agency issues, as well as certain other securities that are guaranteed by the U.S. Federal Government.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The OTFM uses the cash basis of accounting with certain modifications for the Individual Indian Monies. Accrual adjustments were recorded in the accompanying financial statements as of September 30, 1999 and 1998, to reflect interest and dividends earned, but not received, and to record any applicable accretion of discount/amortization of premium over the terms of the investments. This is a comprehensive basis of accounting other than generally accepted accounting principles. Investments are stated at amortized historical cost. Interest receipts reported in the Statements of Changes in Trust Fund Balances reflect the net of interest earned and amortization expense or accretion income recognized during the fiscal year. Investments have not been adjusted to reflect changes in market value, because it is the OTFM's intent and ability to generally hold these investments until maturity.

The Indian Trust Funds account for assets held for others in a trust capacity and do not involve measurement of operations. Receipts, other than interest on invested funds, are recorded when received, because it is not practicable to measure the majority of such items prior to receipt. Accordingly, receivables, other than accrued interest and dividends, are not reflected in the accompanying financial statements. The accompanying financial statements include only the balances held in trust by the OST and OTFM for others and do not include (1) the

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account balances of the OST and OTFM (general appropriations, personnel and administrative costs, etc.), or (2) the values of Indian lands, buildings or other non-monetary assets regardless of the source of funding (Tribal monies, Congressional appropriations, Indian Trust Fund resources, etc.).

**B. Interest Receipts**

IIM Trust Funds are pooled and invested. Interest is received in two ways: (1) directly from investment securities in which the Trust Funds are placed, such as U.S. Treasury, Agency or U.S. Federal Government sponsored securities, or (2) from a U.S. Treasury overnight investment ("overnighter"), which earns a rate comparable to "Fed Funds" rates. Interest receipts as reflected in the Statement of Changes in Trust Fund Balances are net of amortization expense/accretion income for the fiscal year. The interest on the overnighiter investments is calculated daily, compounded, accumulated separately for participating accounts and posted to the pooled accounts monthly. Interest is subsequently distributed to the individual accounts.

**C. Other Receipts**

Other trust receipts are generated from a variety of assets that are held in trust by the U.S. government and managed by the various Agencies and the BIA on behalf of individual Indians. Such amounts include receipts from various leasing activities, mineral royalties, and sales of extracted minerals, timber and forest products, fees and fines, and the granting of easements. Other receipts also contain payments, claims and judgment awards to individual Indians by the U.S. Government.

**D. Disbursements**

Payments disbursed to and on behalf of individual Indians consist of investment income, per capita payments, as well as funds from various income-producing activities such as leasing, royalty payments, mineral extraction and timber and forest product sales.

**E. Significant Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Management considers the market value of investments one such significant estimate.

**NOTE 3 -- ACCOUNTING SYSTEMS AND MATERIAL INTERNAL CONTROL WEAKNESSES**

The accounting systems, subsystems and internal control procedures used by the OST and OTFM have historically suffered from a variety of system and procedural internal control weaknesses. Some of these weaknesses along with their improvements are as follows:

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- A. There remain some gaps of consistency in the application of accounting and related procedures being utilized OTFM-wide, which cause accounting errors in the Trust Funds. Standardized documented policies and procedures are in various stages of development to address all significant accounting processes.
- B. There is inadequate segregation for many key duties, particularly in the accounting processes performed at the Regional and Agency Offices. Efforts have been implemented to centralize the accounting input functions to the central office, which is expected to address the segregation of conflicting duties issue.
- C. Records management is inconsistent and inadequate to ensure the proper filing and safekeeping of Trust Fund records to support trust financial activity, however, a mandatory documents policy has been adopted and verification of these mandatory documents will be checked in the centralized accounting pre-posting review procedures.
- D. Prior to October 1998, internal interim financial statements were not being prepared. The OTFM did compile a Statement of Assets and Trust Fund Balances and Statement of Changes in Trust Fund Balances on a quarterly basis for the fiscal year ended September 30, 1999.
- E. There is an unreconciled difference of approximately \$35,000,000 between the total cash balances reflected by the OTFM for Tribal and Other Special Trust Funds, and Individual Indian Monies and the balances reported by Treasury as of September 30, 1999 and 1998. Treasury reports reflect balances less than OTFM balances. Issue papers and proposed action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.
- F. Account balances associated with the IIM class action litigation need to be resolved before reliance can be placed on the balances reflected in the Trust Fund accounts.
- G. Uncertainties regarding the division of responsibilities between BIA and OTFM staff resulted in inconsistent implementation of responsibilities.
- H. There is approximately \$81,000,000 and \$104,000,000 held in approximately 18,000 and 24,000 Special Deposit Accounts in the IIM subsidiary ledger as of September 30, 1999 and 1998 respectively. There are inadequate controls and a lack of management reporting and accountability over the use of these accounts. OST and BIA have developed a task force of individuals from the respective organizations to begin discussing the various issues related to special deposit accounts and to establish a policy to be implemented in fiscal year 2000 related to existing and future special deposit accounts.
- I. There is an unreconciled net difference between the IIM detailed subsidiary ledger and the corresponding OMNI (subsequently SEI) control account as of

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September 30, 1999 and 1998. The OMNI/SEI control account reflected a balance greater than the IIM detailed subsidiary ledger. During fiscal year 1998 the OTFM, with the assistance of a contractor, initiated a project to identify components of this number. As of September 30, 1999 and 1998 the aggregate of all positive fund balances from the IIM detailed subsidiary ledger exceeded the assets by \$6,700,000. Issue papers and proposed action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.

J. The IIM detailed subsidiary ledger contains certain accounts with negative balances aggregating approximately \$44,000,000.

In an effort to address these pervasive issues, the OTFM was placed under the direction of the OST, effective February 9, 1996 with Secretarial Order 3197. The Secretary's decision on system improvements and data clean up were organized into separate, but complementing Sub projects, which comprise the High level Implementation Plan ("HLIP"). The HLIP provides information on and describes each of the 13 Sub projects, responsible Bureaus and Offices, supporting tasks, critical milestones, work plans, resource estimates, and accountable officials. These 13 Sub projects have been subsequently modified to 11 and are in various stages of completion and implementation.

NOTE 4 -- CASH AND OVERNIGHT INVESTMENTS

Cash balances consist of cash deposits to Treasury between the cut-off time for overnight investment, 1:00 p.m. (MST/MDT), and the end of the business day. Amounts on hand at the Regional and Agency Offices waiting for deposit to Treasury are not included in the financial statements.

Overnight investments consist of available cash invested with Treasury. As of September 30, 1998, the investment in overnight investments exceeded the available cash by \$15,123,510, which resulted in the cash overdraft with U.S. Treasury. The interest collected by the OTFM for the over-investment was subsequently returned to the U.S. Treasury. No account holders were affected by the accounting transaction.

This overdraft resulted from the transfer of certain special deposit accounts from the IIM system to the Tribal system. This reclassification of approximately \$16,000,000 resulted in a cash overdraft in the Individual Indian Monies Trust Funds financial statements and a positive cash balance in the Tribal and Other Special Trust Funds financial statements.

NOTE 5 -- INVESTMENTS

Investments are recorded at cost adjusted for accumulated amortization of premiums and accretion of discounts utilizing the effective interest method.

The Trust Fund assets have a concentration of credit risk in U.S. Government securities, as mandated by 25 USC 162.

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**Maturities**

Investments with scheduled maturities at September 30, 1999 and 1998 are as follows:

<u>Amortized Cost</u>	<u>1999</u>		<u>1998</u>	
	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Amortized Cost</u>	<u>Market Value</u>
U.S. Treasury and Agency Securities:				
Overnight Investment	\$ 9,015	\$ 9,015	\$ 20,793	\$ 20,793
Less than 1 Year	503	502	32,330	32,493
1 - 5 Years	99,702	99,098	61,540	63,414
5 - 10 Years	199,880	191,717	154,856	161,106
Greater than 10 Years	<u>38,670</u>	<u>41,532</u>	<u>105,792</u>	<u>122,537</u>
	347,770	341,864	375,311	400,343
Certificates of Deposit:				
Less than 1 Year				
Equities with no scheduled maturities	5,000	4,988	5,000	5,263
Mortgage backed securities with varying maturities	<u>90,627</u>	<u>92,683</u>	<u>108,782</u>	<u>113,221</u>
	<u>\$ 443,397</u>	<u>\$ 439,535</u>	<u>\$ 489,093</u>	<u>\$ 518,827</u>



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The original cost, net accumulated amortization and accretion, amortized cost and market value of the investments held at September 30, 1999 and 1998 are as follows:

<u>Investment Class</u>	<u>Original Cost</u>	<u>Net Accumulated (Amortization)/ Accretion</u>	<u>Amortized Cost</u>	<u>Market Value</u>
September 30, 1999:				
Overnight Investment	\$ 9,015	\$ -	\$ 9,015	\$ 9,015
U.S. Treasury and Agency securities	322,462	16,293	338,755	332,849
Equity securities	5,000	-	5,000	4,988
Mortgage backed securities	89,632	995	90,627	92,683
	<u>\$ 426,109</u>	<u>\$ 17,288</u>	<u>\$ 443,397</u>	<u>\$ 439,535</u>
September 30, 1998:				
Overnight Investment	\$ 20,793	\$ -	\$ 20,793	\$ 20,793
U.S. Treasury and Agency securities	341,138	13,380	354,518	379,550
Equity securities	5,000	-	5,000	5,263
Mortgage backed securities	106,205	2,577	108,782	113,221
	<u>\$ 473,136</u>	<u>\$ 15,957</u>	<u>\$ 489,093</u>	<u>\$ 518,827</u>

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NOTE 6 -- COMMITMENTS AND CONTINGENCIES

The Secretary has been designated by U.S. Congress as the primary fiduciary with responsibility for monetary resources held in trust, collecting all monies due from outside individuals/organizations for the use of Indian lands and the extraction of natural resources from Indian lands, and disbursing such monies collected to the appropriate beneficiaries.

Classes of Indian individuals have filed various claims against the United States for failure to fulfill its fiduciary responsibilities and for related charges. Neither the OTFM nor the Office of the Solicitor for the U.S. Department of the Interior can presently determine the outcome of these actions nor the total amount, responsibility and funding source of the potential liability.

Any actual liabilities resulting from adverse outcomes of the contingencies described above are generally expected to be satisfied with U.S. Federal Government funds, and not assets of the Trust Fund. No amounts have been accrued in the accompanying Trust Fund financial statements for potential claims receivable from the U.S. Federal Government.

NOTE 7 -- TRUST FUND BALANCES

Trust Fund balances are the aggregation of monetary assets held in trust and represent the amounts owed to beneficiaries as of September 30, 1999 and 1998, for which the OTFM has a fiduciary responsibility.

A portion of such account balances represent prepayments or deposits on production type leases for which certain individual Indians and Tribes hold an interest (see note 9). Any deposits in excess of production are returned to the depositor. Such account balances, as of September 30, 1999 and 1998 have not been quantified.

Classes of Indian individuals have filed various claims against the United States for failure to fulfill its fiduciary responsibilities and for related charges. Neither the OTFM nor the Office of the Solicitor for the U.S. Department of the Interior can presently determine the outcome of these actions nor the total amount, responsibility and funding source of the potential liability.

Any actual liabilities resulting from adverse outcomes of the contingencies described above are generally expected to be satisfied with U.S. Federal Government funds, and not assets of the Trust Fund. No amounts have been accrued in the accompanying Trust Fund financial statements for potential claims receivable from the U.S. Federal Government.

Unallocated Balances, Net

The net unallocated amounts for the IIM Trust Fund balances, consisting of cumulative differences between OmniTrust (subsequently SEI) general ledger control account was greater than the subsidiary detail of account holders' balances and activity ("IRMS System"). During fiscal year 1998 the OTFM, with the assistance of a contractor, initiated a project to identify components of this number. As of

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September 30, 1999 and 1998 the aggregate of all positive fund balances from the IIM detailed subsidiary ledger exceeded the assets by approximately \$6,700,000.

A portion of the Special Deposit Account monies held in the IIM Trust Fund have not been distributed to the beneficiaries because the ultimate disposition of the funds has not been determined.

NOTE 8 -- RELATED PARTY TRANSACTIONS WITH OTHER U.S. GOVERNMENT ORGANIZATIONS

Debt Arrangements

The BIA is a party to various note payable agreements. These agreements are primarily between the Indian Tribes and the U.S. Department of Agriculture Farmers Home Administration ("FmHA") or the U.S. Department of Commerce Economic Development Administration ("EDA"). The proceeds of the FmHA loans are used by Indian Tribes to repurchase fractional ownership interests in allotted lands from individual Indians.

The income received from the acquired ownership interests are deposited into either "Special Deposit" accounts in the IIM Trust Funds or a designated Tribal account in the Tribal and Other Special Trust Funds, and principal and interest payments are made from these accounts. EDA loans are utilized for construction of Tribal facilities (governmental/administrative buildings, and facilities for enterprise activities such as manufacturing, hotel/motel facilities, etc.). Individual Tribes are liable for repayment of these loans; however, Trust Funds may be utilized for payment of these loans.

Minerals Management Services

The OTFM receives royalty payments from the U.S. Department of the Interior Minerals Management Service ("MMS") on behalf of Indian Tribes and individual Indians holding mineral rights. MMS generally transfers the royalty payments to the OTFM upon receipt. At the time the royalty payments are received, MMS does not provide the OTFM with lease information for IIM account holders until several weeks after the related royalty payments are received. Accordingly, the OTFM holds the royalty receipts in an interest bearing account until it receives the lease information on how the royalties are to be distributed. Generally, upon receipt of the lease information data from MMS, the royalty receipts are distributed through the Royalty Distribution Reporting System ("RDRS"). IIM account royalty payments are then either paid by check or held in IIM accounts. MMS and the Bureau of Land Management both perform verification and other monitoring procedures of mineral assets.

Oil and gas companies sometimes make overpayments to MMS. These are first paid to the OTFM on behalf of individuals, and then disbursed by the OTFM to the beneficiaries. The overpayments generally result from payments being made based on estimated mineral production, in order to comply with the Federal Oil and Gas Royalty Management Act of 1982 which requires timely distribution of royalties. Typically, the oil and gas companies recover such overpayments by adjusting future payments. IIM account overdrafts are created as a result of netting payments and collections at the lease level and rounding differences. The amount of such overpayments if any as of

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September 30, 1999 and 1998, are not readily determinable and has not been quantified in these financial statements.

Other

As discussed in Note 4, the Treasury holds cash and overnight investments. As discussed in Note 6, the DOI Office of the Solicitor serves as legal counsel for the OST and OTFM.

NOTE 9 -- TRANSFERS

The OTFM receives monies into IIM special deposit accounts for both Tribal and IIM beneficiaries. These accounts are to be used as suspense accounts to which funds are posted when the allocation is not immediately clear. Funds are subsequently transferred from the IIM system to the appropriate Tribal account when the proper allocations are determined by BIA. These transfers amounted to approximately \$45,000,000 and \$49,000,000 during the fiscal years ended September 30, 1999 and 1998 respectively. The payments to and on behalf of account holders category of the Statement of Changes in Trust Fund Balances includes these net transfers. The amount of monies yet to be transferred has not been quantified in these Individual Indian Monies financial statements.

# GRIFFIN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

DAN D. GRIFFIN

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL CONTROL STRUCTURE

To the U.S. Department of the Interior  
Office of the Special Trustee for American Indians:

We have audited the Statements of Assets and Trust Fund Balances and the related Statements of Changes in Trust Fund Balances for Tribal and Other Special Trust Funds, and Individual Indian Monies trust funds ("IIM") managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians ("OST") Office of Trust Funds Management ("OTFM") as of and for the years ended September 30, 1999 and 1998, and have issued our report thereon dated April 14, 2000.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the OTFM is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the cash basis of accounting used to prepare the Tribal and Other Special Trust Funds financial statements, and the modified cash basis of accounting used to prepare the Individual Indian Monies Trust Funds financial statements. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audits of the Statements of Assets and Trust Fund Balances and the related Statements of Changes in Trust Fund Balances for the Tribal and Other Special Trust Funds, and Individual Indian Monies managed by the OTFM as of and for the years ended September 30, 1999 and 1998, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing an opinion on the Statements of Assets and Trust Fund Balances and the related Statements of Changes in Trust Fund Balances and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion. Also, for those significant internal control structure policies and procedures that were properly designed and placed in operation, we performed tests to determine whether such policies and procedures were operating effectively at September 30, 1999 and 1998.

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We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. These matters are described in the "Reportable Conditions" section of this report. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control structure that, in our judgment, could adversely affect OTFM's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. These matters are described in the "Material Weakness" section of this report.

We also noted other matters involving the internal control structure and its operation as well as certain other advisory comments, which we did not consider to be reportable conditions. These comments are set forth in the "Other Advisory Comments" section of this report.

In the Reports of Independent Public Accountants on Internal Control Structure for the years ended September 30, 1998, 1997, 1996 and 1995, we noted matters involving the internal control structure and its operation that we considered to be material weaknesses, reportable conditions and other advisory comments. The disposition of these matters is set forth in the "Summary of Issues" section of the report.

#### GENERAL - TRIBAL AND IIM

The accounting systems and internal control procedures used by the OTFM have historically suffered from a variety of system and procedural internal control weaknesses. In addition, current management is burdened with the ongoing impact of decades of accumulated errors in the accounting records. These factors place significant limitations on management's ability to effectively manage the trust funds entrusted to the OTFM.

In an effort to address these pervasive issues, the OTFM was placed under the direction of the OST, effective February 9, 1996 with Secretarial Order 3197. The Secretary and the Special Trustee agreed that selected trust improvements and data clean up efforts in the Strategic Plan could and should proceed as soon as possible within the organizational structure of the Department of the Interior ("DOI"). The approach selected to implement the Secretary's decisions on portions of the Special Trustee's Plan is centered on 13 major Sub projects. Each of the 13 Sub projects are presented in the Department's Trust Management Improvement Project's *HIGH LEVEL IMPLEMENTATION PLAN* ("HLIP") issued in July 1998. In the revised and updated HLIP dated February 29, 2000, two Sub projects have been merged with other Sub projects leaving a total of eleven. The decision to merge elements was based on a reevaluation of their interrelationships and interdependence. The OST has primary responsibility for 5 Sub projects.

The following are excerpts and paraphrases from the revised and updated High Level Implementation Plan published by the U.S. Department of the Interior, Trust Management Improvement Project, dated February 2000.

"Concerns about the management of Indian Trust funds have been a longstanding issue. As early as 1928, the U.S. General Accounting Office (GAO) - the

investigative research arm of Congress - issued reports documenting weak accounting practices and other problems in Bureau of Indian Affairs (BIA) trust fund management."

Since then, there have been numerous reports highlighting weaknesses in management and accounting practices from such overseeing entities as the Congressional Committees, the Office of Management and Budget (OMB), the Inspector General and Department Bureau reviews as well as outside contractor reports.

"In 1994, Congress passed the American Indian Trust Fund Management Reform Act of 1994, 25 United States Code (U.S.C.) §§4001-4061, which established the Office of the Special Trustee for American Indians. Under this legislation, the Special Trustee, who reports directly to the Secretary of the Interior, is responsible for oversight, reform, and coordination of the policies, procedures, systems and practices used by various Departmental agencies in managing Indian trust assets. Specifically, the Special Trustee was charged with preparing and submitting a comprehensive strategic plan for all phases of the trust management business cycle that would ensure the proper and efficient discharge of the Secretary's trust responsibilities to Indian Tribes and individual Indians in compliance with the Act. The Act also defined the following as prospective actions required of the Secretary necessary to properly discharge the trust responsibilities of the United States:

- Providing adequate systems for accounting for and reporting trust fund balances;
- Providing adequate controls over receipts and disbursements;
- Providing periodic, timely reconciliations to assure the accuracy of accounts;
- Determining accurate cash balances;
- Preparing and supplying account holders with periodic statements of their account performance and with balances of their account which shall be available on a daily basis;
- Establishing consistent, written policies and procedures for trust fund management and accounting;
- Providing adequate staffing, supervision, and training for trust fund management and accounting;
- Appropriately managing the natural resources located within the boundaries of Indian reservations and trust lands;
- Properly accounting for and investing, as well as maximizing, in a manner consistent with the statutory restrictions imposed on the Secretary's investment options, the return on the investment of all trust fund monies;
- Preparing accurate and timely reports to account holders (and others, as required) on a periodic basis regarding all collections, disbursements, investments, and return on investments related to their trust accounts;
- Maintaining complete, accurate and timely data regarding the ownership and lease of Indian lands.

The Special Trustee submitted a Strategic Plan for Trust Improvement in April 1997. Notwithstanding the Secretary's reservations about certain aspects of the Strategic Plan, the Secretary agreed that the trust system improvements and data clean up efforts in the Plan could and should proceed as soon as possible within the organizational structure of the Department.

The Secretary's decisions on system improvements and data clean up were organized into separate but complementary subprojects, which comprise the Trust Management Improvement Plan (TMIP), in the original HLIP which was approved in July 1998."

In the revised and updated HLIP dated February 29, 2000, two subprojects have been merged with other subprojects leaving a total of eleven. The decision to merge elements was based on a reevaluation of their interrelationships and interdependence. The OST has primary responsibility for 5 subprojects.

The subprojects that the OTFM significantly contributes to are:

- "OST Trust Administrative Records Cleanup. In this subproject, OST is standardizing and verifying IIM system data for trust financial records, and correcting and establishing an inventory of hard copy records for each trust fund account."
- "Trust Funds Accounting System (TFAS). Using a service bureau approach, the Office of Trust Funds Management acquired, installed and site-tested a proven commercial off-the-shelf trust accounting system to replace the present BIA IIM accounting module."
- "Records Management. Under this subproject, a joint Records Management solution for Interior trust records involving OST, BIA, MMS, BLM, OHA and other relevant DOI offices has been developed and is being implemented. The scope includes Indian trust records management, storage, access, control and disposition, and contemplates electronic record keeping, including imaging technology."
- "Training. The Training subproject will plan and deliver both trust management and employee skills training relevant to delivery of Interior's trust fiduciary responsibilities to American Indians. Training will be provided across the Interior trust workforce and will include Tribes and participating contractors."
- "Internal Controls. The subproject will systematically address documented internal control deficiencies in Indian trust management, item by item, that have been identified through internal and external audit, Congressional oversight and outside reviews. Corrective actions will be validated and/or designed to assure resolution of all internal control weaknesses. Further, a permanent trust risk management office is being established to conduct continuing revisions of trust operations across DOI to ensure performance of Indian trust management responsibilities."

The other subprojects are:

- BIA Trust Resource Records Cleanup
- Probate Backlog
- BIA Appraisal Program
- Trust Asset and Accounting Management System (TAAMS)
- MMS System Reengineering
- Policies and Procedures



OTHER ADVISORY COMMENTS

Interfund and Intrafund Transfers (43)

Currently, interfund (i.e., between Tribal and IIM accounts) and intrafund (i.e., between Tribal and Tribal or between IIM and IIM accounts) transfers are coded to numerous receipt and disbursement codes. This results in substantial manual effort to identify and reclassify these transfers for financial reporting purposes.

Recommendation (43): In order to ensure consistent and accurate treatment of interfund and intrafund transfers, a process should be developed and documented to consistently record transfers. In addition, policies should be established and enforced to post all transfer to the same select few receipt and disbursement codes.

Client Response (43): By October 1, 2000, all interfund and intrafund transfers will be completed using a defined transfer process. A policy will be established and supporting procedures will be implemented whereby each transfer will be reviewed by pre- and post-review to insure that respective transfers are accomplished using appropriately defined codes.

Fund Level Reporting (44)

The current system is designed to generate individual trust account statements, but does not currently generate a fund level statement of trust fund balances or statement of changes in trust fund balances. Such statements are currently generated through off-line manipulation of the system data.

Recommendation (44): Although the off-line procedures are being developed for the preparation of interim financial statements, we recommend that the system control totals or fund level summary reports be developed within the current system. These reports or control totals will provide verification of data downloads used for periodic reporting, as well as aid in determining the validity of reports generated by the system.

Client Response (44): Currently, an automated data accumulation process is being developed by Division of Trust Funds Systems to capture control totals and produce fund level summary reports. These reports will assist in the periodic financial reporting required of the OTFM. We anticipate completion by the end of summer 2000.

OST has made considerable efforts towards improving the accounting systems and internal controls in place within the OTFM. We have considered this as ongoing reform efforts, and have adjusted certain past "Material Weaknesses to Reportable Conditions and certain past "Reportable Conditions" to "Other Advisory Comments" based on the progress made to date and the expectation that these items will soon be resolved due to the initiatives and centralization efforts that are in place. We will continue to monitor the progress of the past items and report on them appropriately to OTFM management.

The following issues are repeated from the prior years' (1995, 1996, 1997 and 1998) Report of Independent Public Accountants on Internal Control Structure. In an effort to consolidate similar issues, we have combined certain items into one issue and have prefaced each issue with a note to the reader detailing the numbers of the items combined. For a complete listing of all issues and its current status, please see the "Summary of Issues" within this report.

OTHER ADVISORY COMMENTS

Trust Systems (42)

*Note: Issues 12 and 13 address Trust systems. They have been combined and are currently being reported as issue number 42.*

• *System Security (BIA)*

As part of our audit related to electronic data processing ("EDP"), we reviewed system security. Based upon our review we noted:

- ✓ Periodic reviews of system reports were not being performed.
- ✓ Specific, clearly defined information security policies and procedures for system security monitoring do not exist.

Adequate audit trails should exist and be reviewed so that adverse activity on general support systems can be prevented or detected. By not reviewing security-related reports, there is an increased risk that computer resources may be altered without authorization and without detection through normal operating controls.

• *Physical Access to the Operations Service Center ("OSC") at BIA*

As part of our audit related to EDP, we reviewed physical access to the computer room, which houses the IRMS system and other critical Trust Systems equipment and documents. As of September 30, 1998 there were 103 active access cards. Based upon our review we noted:

- ✓ Not all cards are assigned to specific individuals
- ✓ Certain individuals are in possession of multiple cards
- ✓ A number of contractors with limited need are in possession of access cards
- ✓ A number of OSC personnel whose job function should not require access to the computer room are in possession of access cards
- ✓ Two individuals from the Division of Accounting Management are in possession of access cards

Control measures to protect Trust systems from unintentional damage and data from unauthorized disclosure or modification and access to sensitive areas must be strengthened.

• *Password Controls (BIA)*

Per our review of access to IRMS, we noted that there are inadequate controls of user codes and passwords including:

- ✓ User codes are not routinely removed for terminated or transferred employees
- ✓ Passwords are not changed on a regular basis
- ✓ Complete documentation does not exist to readily identify the owner of each user code

Without strong controls related to the access to sensitive Trust systems, the risk of unauthorized modifications to trust data is increased. Additionally, any unintended modifications may be difficult to detect and correct without an adequate audit trail.

- **Disaster Recovery Plan (OSC operated systems/BIA)**

In the event of a disaster, an agreement exists to perform remote processing of IIM applications in Scottsdale, Arizona. However, the disaster recovery plan has not been tested since the conversion of the Unisys A17 to the Unisys NX Clearpath Server. It has been almost two years since the last test was performed. Without a proven recovery plan, the possibility exists that Trust operations would not resume within a reasonable period of time in the event of a disaster.

- **Documentation**

Per our review of access to the OSC and SEI operated systems, we noted that the access request forms, which document assigned user codes and passwords are not stored in a secure location. Without strong controls to safeguard against unauthorized access to assigned user codes and passwords, the risk of unauthorized modifications to trust data is increased.

Due to the closing of the OSC in Albuquerque and the conversion of the IIM data to SEI we feel the above five items will be resolved prior to the year ended September 30, 2000, as they relate to OTFM's Report of Independent Public Accountants on Internal Control Structure.

Prior Year - September 30, 1997

**MATERIAL WEAKNESSES**

**Missing and/or Incomplete Documents - Tribal and IIM (32)**

**Note:** Issue 34 addressed Funds Accepted Into and Disbursed From Trust without Supporting Documentation. The issue regarding lack of supporting documentation has been combined and reported as issue 32.

As part of our audit related to receipt and disbursement testing, critical documentation was determined to be either missing or contained errors. During our 1999 field visits, and in our substantive and compliance testing, we noted instances for which we were unable to obtain the appropriate documentation authorizing receipts and disbursements for Tribal and IIM accounts.

This condition remains unresolved as of September 30, 1999.

**Improper Transaction Coding - Tribal and IIM (33):**

We noted numerous receipts and disbursements encoded with improper receipt and disbursement codes within the accounting systems. Particularly, the use of the "miscellaneous" or "other claims and settlements" reference codes, although the items represented "lease income", "land sales", etc., for which there are specific receipt and disbursement codes available. As a result, the OTFM cannot provide reasonable assurances as to the nature or amounts represented, as individual categories of trust receipts and disbursements.

This condition remains unresolved as of September 30, 1999.

## REPORTABLE CONDITIONS

### Ineffective Implementation of Policies and Procedures - TRIBAL and IIM (31)

*Note: Issues 4, 19, and 31 all addressed ineffective implementation of policies and procedures. They have all been combined and are currently being reported as issue number 31.*

As part of our audit related to compliance with internal controls as they relate to standard operating procedures, we discussed with the Collection Officers and IIM Accounting Technicians at the Regional and Agency offices visited and noted the following reportable conditions.

It should be noted that while authority to supervise financial trust accounting personnel was delegated to the OTFM in February 1996 under the Secretarial Order 3197, particular trust functions, are performed by non-OTFM staff (i.e., BIA and Tribal) over which the OTFM has no control nor line authority. As a result, there is an inability to implement existing policies and procedures pertaining to non-OTFM personnel/individuals.

While the OTFM continues to work towards providing improved regulatory guidance and policies and procedures, consistent implementation of existing guidelines has not been achieved due to the decentralized nature of OTFM field accounting operations, lack of personnel at certain locations, lack of line authority over certain trust functions that impact OTFM operations and inadequate information systems. Certain of the following items represent reportable conditions as of September 30, 1999, and should be addressed by the OTFM:

#### **A. Segregation of duties**

- ✓ In certain instances OTFM staff are performing collection officer duties and performing account encoding functions.
- ✓ OTFM employees at unconverted locations are allowed to post transactions to their own accounts without supervisory review.

#### **B. Training**

- ✓ Collection officers and/or IIM Accounting Technicians do not have trained alternates to perform the function in their absence.

This portion of the condition is considered resolved as of September 30, 1999.

#### **C. Safeguarding of assets**

- ✓ Collection officers are often the only individual with the combination to the safe.
- ✓ Combinations are not changed when an employee with knowledge of the combination to the safe leaves his/her position.
- ✓ Cash receipts are being stored in file drawers rather than in a safe or vault.

This portion of the condition was shared with the BIA as it related to fiscal year 1997 and is considered resolved as it relates to OTFM's Report of Independent Public Accountants on Internal Control Structure as of the date of this report.

#### **D. Work environments**

- ✓ Collection officers work in an open, unsecured environment in field offices. This type of work environment lends itself to the possibility of sensitive account holder information being exposed to non-account holders.

This portion of the condition is considered resolved as of September 30, 1999.

**E. Process reviews**

- ✓ IIM accounts on hold status are not being reviewed periodically. (BIA)
- ✓ During the fiscal year ended September 30, 1999, there is no substantive review of the receipts and disbursements by the OTFM Division of Quality Assurance.

**F. Posting of Tribal funds into the IRMS system**

- ✓ IIM accounting technicians are currently posting funds that are known to be tribal owned accounts into the IIM system.

This portion of the condition is considered resolved as of September 30, 1999.

**G. IIM account status changes**

- ✓ IIM accounting technicians at unconverted locations do not submit address changes, status (hold) changes, new account set ups, etc., to a supervisor for approval prior to processing, and no supervisory review of the change to the master record subsequently occurs.

**H. Implementation and enforcement of policies and procedures**

- ✓ OTFM Division of Field Operation's staff, at unconverted locations, are not complying with minimum documentation standards for IIM transactions as identified in POL98-012 (Mandatory Documentation Requirements for IIM Account Jacket Folders).

**I. Policies and procedures**

- ✓ OTFM personnel do not have a comprehensive set of standard operating procedures manuals in which to understand their job responsibilities and duties. They are expected to perform their duties by utilizing the Desk Operating Procedure Manual, OTFM issued numbered policies and procedures, and/or e-mail instructions. These sources of information should be combined into a comprehensive set of operating manuals.

Items A, E, G, H and I above remain unresolved as of September 30, 1999. As of March 31, 2000, OTFM has centralized many of the accounting functions previously performed at its field locations. We feel this centralization effort may resolve issues A, G, and H, as they relate to OTFM's Report of Independent Public Accountants on Internal Control Structure.

**Funds Accepted into Trust without Supporting Documentation - Tribal and IIM (34)**

Note: Issue 34 addresses missing and/or incomplete documents and accepting potential non-trust funds and is currently reported as issues 32 and 40.

**Investments - Inadequate Procedures relating to Market Pricing and Stated Market Values - Tribal and IIM (37)**

In reviewing the process by which the Branch of Investments obtains information to manually price securities, we determined there is no documented procedure for updating and documenting the source of information for manually priced securities.

This condition was resolved as of September 30, 1999.

## OTHER ADVISORY COMMENTS

### Investments - Lack of Manual Adjustment Procedures - Tribal and IIM (36)

We were unable to locate documented procedures for performing manual adjustments (correcting entries) in the OmniTrust system. These procedures should include a review of the transaction before and after the posting to ensure accuracy. In our testing of investment activity, which included several principal pay down transactions, we noted the amount of carry value reduced with a principal pay down did not correspond to the same par/cost relationship as indicated in the original broker's confirmation. In reviewing the history of transactions posted for the security, it was noted that in the previous fiscal year a manual adjustment to carry value was made incorrectly, thus altering the par/cost relationship.

This condition was resolved as of September 30, 1999.

### Investments - Lack of Contract Compliance - Custodial Reconciliation - Tribal and IIM (39)

Differences exist between Banker's Trust, OTFM's Custodian, and information contained on the OmniTrust system. The differences exist predominately on the Banker's Trust system and include maturity dates, interest rates and differences in par value. Although the OTFM has identified and communicated the differences to the contractor, some differences have aged significantly without resolution. The differences may lead to difficulties in proper settlement when securities mature or are sold if the appropriate party does not resolve them.

This condition was resolved as of September 30, 1999.

### Fund Balance - Accepting Non-trust Beneficiaries and Non-trust Funds - Tribal and IIM (40)

*Note: Issue 34 addressed Funds Accepted into Trust without Supporting Documentation. The issue regarding accepting potential non-trust funds has been combined and reported as issue 40.*

It appears that accounts may be established and maintained for non-trust beneficiaries and non-trust money may be accepted into these accounts. It does not appear that definitive regulation or legislation exists which specifically addresses the nature of the allowable collections into trust or whether the OTFM may provide trust and/or banking services to organizations other than Tribes or Individual Indians.

During our 1999 field visits, and in our substantive and compliance testing, we noted twenty-two accounts that appear to be maintained in the IRMS system for various BIA program related activities. We also noted one location that was accepting gaming funds into trust.

By accepting these moneys into the trust funds, the OTFM accepts the fiduciary responsibility for maintaining the balances and investing the funds. The OTFM may not be delegated those responsibilities and may be inappropriately utilizing government resources to manage and account for the funds. Additionally, without proper supporting documentation, it would be impossible to determine the nature of the funds collected as being appropriate. Voluntary deposits are generally prohibited under 25 CFR 115.6. We have been informed that appropriate personnel action has been taken regarding the acceptance of gaming funds into trust.

These practices noted above may expose the OTFM to unnecessary risk, as in the case of receipt and disbursement of loan payments to third parties without documented beneficiary approval.

This condition remains unresolved at September 30, 1999.

Area and Agency - Bureau of Indian Affairs Trust Responsibilities - Tribal and IIM (41)

As part of our field visits and substantive and compliance testing, we reviewed the collection process along with supporting documentation for collections posted to IIM and Tribal accounts. In so doing, we noted the following internal control issues and instances of non-compliance as they relate to the trust responsibilities of the BIA:

- Unauthorized disbursements from trust accounts occur. We also noted that disbursements from IIM accounts with Social Services holds were "recommended" by a rubber-stamped facsimile of the Superintendent's signature.
- Our testing of lease income revealed that interest is not always collected on late payments. We noted instances where the lessee paid an incorrect amount that was less than the lease amount due. We also noted the Agency was making no attempt at collection of past due amounts.
- The lessee did not execute one lease selected in our upstream sample. We also observed instances of lease payments receipted "pending approval of the lease." The lessee has had use of the land.
- The Agency holds checks in excess of the 24 hour Treasury fiscal requirement.
- Files containing original documents were not stored in a locked, secure location.
- Some allotted lands are not being advertised for lease.
- There is a lack of segregation of duties when the Agency authorized collector simultaneously acts as the authorized mail clerk.
- There is no backup for the collections officer, or the alternate collection officer has not had an opportunity to process collections, which may mean they are no longer familiar with the process.
- The Agency accepts personal checks as a form of payment. On occasion, personal checks were not honored by the issuing bank, and overdrafts to IIM accounts occurred as a result of the delay between the time the item was returned to the Agency and the distribution to the account holder.

These conditions were shared with the BIA as they related to fiscal year 1997 and are considered resolved as they relate to OTFM's Report of Independent Public Accountants on Internal Control Structure.

Prior Year - September 30, 1996

MATERIAL WEAKNESSES

Inadequate Internal Financial Reporting - Tribal and IIM (17)

In performing our tests related to the trust fund balances, we noted that the OTFM could not produce a ready analysis of the changes in cumulative trust fund balances. The resulting Statement of Changes in Trust Fund Balances for Tribal and IIM is a compilation of information derived from three different sources, including

OmniTrust data, IIM system data, and manually prepared investment amortization and accretion schedules.

The OTFM does not produce internal combined trust fund financial reports or statements in accordance with the appropriate basis of accounting. Financial reporting prepared for management's review contained no Statement of Assets and Trust Fund Balances or Statement of Changes in Trust Fund Balances other than those produced as a part of the annual audited financial statements.

The Statement of Changes in Trust Fund Balances is a generally accepted financial report that provides an analysis of periodic receipt and disbursement activity by source, and, in essence, represents a summary reconciliation of beneficiary accounts at the highest consolidated level.

This condition was resolved as of September 30, 1999.

#### Area and Agency Offices - Unauthorized Transactions - Tribal and IIM (18)

As part of our receipts and disbursements testing, we reviewed disbursement transactions for proper approvals, in accordance with 25 Code of Federal Regulations ("CFR"), Secretarial Order 3177, and Secretarial Order 3197 (for transactions subsequent to February 9, 1996).

In our sample, we noted that BIA personnel did not approve three Tribal disbursement transactions from the IIM subsidiary system totaling \$850,000. These were disbursed prior to the February 9, 1996 Secretarial Order 3177 which changed policies and procedures relating to disbursement approvals. Also, for two transactions totaling \$70,640, documentation supporting beneficiary approval of disbursements to third parties was not provided.

OTFM and BIA policies and procedures require an appropriate approval be obtained prior to funding tribal disbursements. Without proper approvals, the OTFM may be inappropriately disbursing trust assets. An approval signature indicates that a disbursement has been reviewed and is appropriate based on supporting documentation. Lack of documented approval indicates that these steps may or may not have occurred. Inadequate documentation of approvals may also expose the OTFM to a potential breach of fiduciary responsibility.

Our testing of disbursement transactions for the fiscal year 1997 revealed several instances of unauthorized disbursements from both Tribal and Individual Indian Money accounts.

The condition was shared with the BIA as it related to fiscal year 1997 and is considered resolved as they relate to OTFM's Report of Independent Public Accountants on Internal Control Structure, with the exception of unauthorized transactions reported in item 32.

#### Area and Agency Offices - Ineffective implementation of Policies & Procedures - Tribal and IIM (19)

Note: Issues 4, 19 and 31 all addressed ineffective implementation of policies and procedures. They have all been combined and are currently being reported as issue number 31.



## REPORTABLE CONDITIONS

### Cash - Failure to Analyze Suspense Accounts - Tribal and IIM (20)

An analysis of the items that comprise several U.S. Treasury ("the Treasury") suspense and budget clearing accounts has not been completed. Therefore, the OTFM's current procedures for researching and proposing adjustments to the cash out of balance condition do not consider whether an offset may already exist within one of these account balances. Funds to cover the adjustments may be in a Treasury suspense or budget clearing account because the original transaction may not have been reported to Treasury, and a Statement of Difference was created. If the Statement of Difference was not resolved, the transaction amount was transferred to one of the Treasury suspense or budget clearing accounts. The Treasury suspense and budget clearing account balances at September 30, 1999 and 1998 were approximately \$102,700, (\$3,378,000), \$5,957,000 and (\$3,310,000).

As a result, the resolution of reconciling items between the U.S. Treasury and the OTFM may be incorrect without consideration given to the items that comprise prior period suspense balances.

The condition was concurred but remains unresolved at September 30, 1999.

### Investments - Lack of Reliable IIM Balance Available for Investing - IIM (22)

The amount invested on behalf of IIM account holders is based on the SEI Trust system IIM control account balance. The balance per SEI does not agree to the balance per the IIM subsidiary ledger. At this point in time, it can not be determined which system has an accurate balance. Consequently, the OTFM may be over or under-investing, because the underlying balance is unreliable.

During the year ended September 30, 1998 the OTFM, with the assistance of a contractor, initiated a project to identify components of this number. As of September 30, 1999 the aggregate of all positive fund balances from the IIM Detailed subsidiary ledger exceeded the assets by approximately \$6,700,000.

Issue papers and proposed action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.

The condition was concurred but remains unresolved at September 30, 1999.

### Special Deposit Accounts - Lack of Policies and Procedures and Inconsistent Practices - IIM (24)

*Note: Issues 7 and 24 addressed Special Deposit Accounts. They have been combined and are currently being reported as issue number 24.*

Per 25 CFR, "Special Deposit" accounts are to be used as suspense accounts to which funds are posted when allocation of funds is not immediately clear. These accounts are maintained within the IIM subsidiary system. The funds are then transferred to the account holder when the proper allocations are determined. Over the years the number of special deposit accounts which have been opened and remained inactive over 18 months has proliferated. Approximately 200 new accounts are opened each month generating increased administrative and TFAS cost.

This condition was concurred but remains unresolved at September 30, 1999.

The OST in conjunction with the BIA and the Office of the Solicitor will jointly:

- A. Establish a policy to address current deficiencies and problems;
- B. Define which accounts are properly categorized as trust fund accounts; and
- C. Begin a new process of handling collections.

An implementation plan will be developed by September 2000, for cleanup process based on a Region by Region assessment.

#### Negative IIM Account Balances Included in Invested Balance - IIM (26)

The IIM subsidiary ledger contains negative account balances approximating \$44,000,000. The SEI control account for IIM is supposed to represent the aggregate net balance of the IIM subsidiary system. However, this is difficult to determine because of the out of balance condition between the control account and the IIM subsidiary ledger that is noted in a separate reportable condition. The invested balance for IIM account holders is equal to the control account balance. IIM account holders with positive balances are being penalized by lower earnings due to the difference between the IIM investment pool and the IIM detail balances.

This condition was concurred but remains unresolved at September 30, 1999.

Issue papers and proposed action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.

#### Prior Year - September 30, 1995

#### MATERIAL WEAKNESSES

##### Cash - Tribal and IIM (1)

Cash balances converted as of March 31, 1995 from the prior general ledger to OmniTrust (subsequently SEI) were approximately \$27,000,000 higher than the balance as reported to the U.S. Treasury. Cash reconciliation procedures only reconcile current activity from OmniTrust/SEI to Treasury and do not address the unreconciled beginning balance. The composition of the difference is not known and no reliance has been obtained that either the OTFM balance or the balance as reported to Treasury balance is accurate.

Further, the \$27,000,000 difference has been reflected at approximately \$35,000,000 as of September 30, 1996, and has remained significantly unchanged through September 30, 1999. The out of balance condition changes as reconciling items are identified and cleared.

This condition was concurred but remains unresolved at September 30, 1999.

Issue papers and proposed action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.

##### Trust Fund Balances - Tribal and IIM (3)

An historical "Undistributed Interest Account" of approximately \$1,800,000 existed at September 30, 1995. The balance as of September 30, 1999, is approximately \$1,500,000.

This condition was concurred but remains unresolved at September 30, 1999.

Issue papers and proposed action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.

Area and Agency Offices - Tribal and IIM (4)

*Note: Issues 4, 19 and 31 all addressed ineffective implementation of policies and procedures. They have all been combined and are currently being reported as issue number 31.*

REPORTABLE CONDITIONS

Cash - Tribal (5)

There were thirteen (13) historical cash accounts on OmniTrust with negative balances totaling approximately \$742,000. As of September 30, 1999, there are nine (9) with balances totaling approximately \$711,000.

This condition was concurred but remains unresolved at September 30, 1999.

Issue papers and proposed action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.

IIM Special Deposit Accounts - IIM (7)

*Note: Issues 7 and 24 addressed Special Deposit Accounts. They have been combined and are currently being reported as issue number 24.*

Ownership Records - Tribal and IIM (8)

Ownership records at the Area and Agency offices are not updated in a timely manner. This results in the potential for inaccurate distributions of lease income to IIM account holders. Lack of resources to process the significant number of changes causes this backlog.

The condition was shared with the BIA as it related to fiscal year 1995 and is considered resolved as it relates to OTFM's Report of Independent Public Accountants on Internal Control Structure.

Accounts Receivable System - Tribal and IIM (10)

The BIA does not have an accounts receivable system in place for trust assets. The GAO, in its report dated April 25, 1994, (GAO/AIMD-94-110R) recommended that the BIA develop an accounts receivable system. Currently, the BIA has no assurance that all lease revenues are billed and subsequently collected.

Such a system should provide reasonable assurance that earned revenues are billed, collected and posted to the appropriate beneficiary's account.

The condition was shared with the BIA as it related to fiscal year 1995 and is considered resolved as it relates to OTFM's Report of Independent Public Accountants on Internal Control Structure.

OTHER ADVISORY COMMENTS

Electronic Data Processing

Disaster Recovery - IIM (12)

Note: Issues 12 and 13 addressing Trust Systems have been combined and are currently being reported as issue number 42.

Password Controls - IIM (13)

Note: Issues 12 and 13 addressing Trust Systems have been combined and are currently being reported as issue number 42.

1099 Interest Reporting - IIM (16)

Currently, there are individuals with no known social security number receiving interest income on trust investments. Because the social security number is unknown, the OTFM reports the interest earnings to the Internal Revenue Service ("IRS") with no recipient social security number. The OTFM does not withhold taxes prior to the interest distribution

This condition was concurred but has not been resolved at September 30, 1999. However, significant efforts are currently underway internally and by a contractor to identify missing account holders and missing social security numbers.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

This report is intended for the information of the Inspector General, the Office of Special Trustee for American Indians of the U.S. Department of Interior and management of OTFM and is not intended for any other purpose. However, this report is a matter of public record and its distribution is not limited.

*Grispin & Associates, P.C., CPAs*  
GRISPIN & ASSOCIATES, P.C.  
Certified Public Accountants

Boulder, Colorado  
April 14, 2000

**U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SPECIAL TRUSTEE  
FOR AMERICAN INDIANS  
TRIBAL AND OTHER SPECIAL TRUST FUNDS,  
AND INDIVIDUAL INDIAN MONIES TRUST FUNDS  
MANAGED BY THE  
OFFICE OF TRUST FUNDS MANAGEMENT**

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON  
COMPLIANCE WITH  
LAWS AND REGULATIONS**

**SEPTEMBER 30, 1999**

# GRIFFIN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

DAN D. GRIFFIN

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE WITH LAWS AND REGULATIONS

To the U.S. Department of the Interior  
Office of the Special Trustee for American Indians:

We have audited the Statements of Assets and Trust Fund Balances and the related Statements of Changes in Trust Fund Balances for the Tribal and Other Special Trust Funds, and Individual Indian Monies trust funds ("IIM") managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians ("OST") Office of Trust Funds Management ("OTFM") as of and for the years ended September 30, 1999 and 1998, and have issued our reports thereon dated April 14, 2000.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the OTFM is the responsibility of the management of the OTFM. As part of obtaining reasonable assurance about whether the statements referred to above are free of material misstatement, we performed tests of OTFM's compliance with certain provisions of laws and regulations. However, the objective of our audits was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in law or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Statements of Assets and Trust Fund Balances and the Statements of Changes in Trust Fund Balances, or that the sensitivity warrants disclosure thereof.

The results of our tests disclosed material instances of noncompliance. As communicated to us by the Office of the Solicitor ("Solicitor") for the Department of the Interior, tribal organizations and classes of Indian individuals have filed various claims against the U.S. Federal Government for failure of the U.S. Federal Government to fulfill its fiduciary responsibilities and related charges.

Prior Year - September 30, 1998

### IMMATERIAL NONCOMPLIANCE

#### Noncompliance with 25 CFR 115.6 - IIM (C1)

25 CFR 115.6 states "As a general rule, voluntary deposits shall not be accepted. Indians who require banking services shall be encouraged to utilize commercial facilities". As indicated within the "Report of Independent Public Accountants on Internal Controls September 30, 1998", we noted several instances in which the OTFM accepted voluntary deposits to Individual Indian Money accounts.

This condition remains unresolved as of September 30, 1999.

OTHER NONCOMPLIANCE (C1A)

The OTFM represented to the Department of the Interior via its "Management Representation Letter" dated December 18, 1998 for fiscal year 1998 unaudited financial statements the following:

"We have not assessed the effectiveness of OTFM's internal control structure over safeguarding the assets against unauthorized acquisition, use, or disposition, compliance with laws and regulations, and financial reporting based upon control criteria established under the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the OMB Circular A-123 subsequent to September 30, 1995. Note: the Special Trustee for American Indians, in his Annual Assurance Statement of Management Controls for Fiscal Year 1997 concludes that the OST systems of management, administrative and financial controls do not provide reasonable assurance that the objectives of the FMFIA have been achieved."

The same representation was expressed regarding the fiscal year 1999 audited financial statements. This condition was concurred but remains unresolved as of September 30, 1999.

Prior Year - September 30, 1996

OTHER NONCOMPLIANCE

Non-compliance with DOA98-005 (OTFM Delegation of Authority for Disbursements) (C2)

We reviewed disbursement transactions for proper approvals, in accordance with 25 Code of Federal Regulations ("CFR") and Secretarial Order 3177 or Secretarial Order 3197. According to numerous sections of 25 CFR, and Secretarial Order 3177, disbursements from tribal trust accounts require the approval of the Secretary of the Interior or his delegate. This authority was subsequently re-delegated to Agency Superintendents for transactions prior to February 9, 1996. On February 9, 1996, Secretarial Order 3197 established the Office of the Special Trustee for American Indians within the Department of the Interior and moved the Office of Trust Funds Management from the BIA to the OST. The Secretarial Order issued all delegations of authority for financial trust services to the Special Trustee for American Indians, and rescinded all such delegations to the Assistant Secretary - Indian Affairs. Pursuant to that Order, on February 9, 1996, the Special Trustee for American Indians delegated all program and administrative authorities necessary to perform financial trust services to the Director, OTFM, with the exception to approve withdrawals of tribal funds from trust. This delegation was published as 210 DM 14, Release 3053. The Director of OTFM, attempted to re-delegate administrative authority within the jurisdiction set forth in 210 DM 14, Release 3053, to OTFM field accounting personnel and BIA Agency Superintendents. This re-delegation was not approved. Subsequent to this, the Director re-delegated her authority to the Area Trust Accountants ("ATA") via Delegation of Authority "DOA98-005" which became effective February 12, 1998. However, during our testing of disbursement transactions we noted exceptions due to improper authorizations (i.e., Superintendents and/or individuals other than the Director or her assignee had authorized the disbursement).

This noncompliance issue is the result of the OTFM and BIA having not reached an operating agreement or executed a Memorandum of Understanding that would define the authorities and responsibilities of various OTFM and BIA personnel in performing financial trust services on behalf of Tribes and individual Indians and specifically as these responsibilities relate to disbursement authorizations. Uncertainties regarding the ultimate placement of OTFM field staff upon termination of the Special Trustee's Office has resulted in inconsistent implementation of responsibilities.

This condition was concurred but remains unresolved at September 30, 1999.

#### IMMATERIAL NON-COMPLIANCE

##### Treasury Fiscal Requirement (C3)

It was noted that Agency offices are in violation of the Treasury Fiscal Requirements whereby funds had been accumulated in excess of \$5,000 and a timely deposit was not made.

The condition was concurred but remains unresolved at September 30, 1999.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the OTFM complied with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention to cause us to believe the OTFM had not complied, in all material respects, with those provisions.

Additionally, the objective of our audit of the financial statements was not to determine whether OTFM's systems are Year 2000 compliant. OTFM's management is solely responsible for Year 2000 compliance for its systems and any other systems that impact OTFM's operations, such as those of OTFM's vendors, service providers or other third parties. The OTFM has received independent verification and validation for Year 2000 capabilities for the SEI Trust 3000 system and the IIM module of (BIA's) IRMS system. Accordingly, we have no responsibility to determine, and provide no assurance on, whether OTFM has addressed or will be able to address the affected systems on a timely basis.

This report is intended for the information of the Inspector General, the Office of Special Trustee for American Indians of the U.S. Department of Interior and management of OTFM and is not intended for any other purpose. However, this report is a matter of public record and its distribution is not limited.

*Griffin & Associates, P.C., CPAs*

GRIFIN & ASSOCIATES, P.C.  
Certified Public Accountants

Boulder, Colorado  
April 14, 2000